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Contractual savings and public investment: are our retirement funds misallocated?

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ABSTRACT

There has been substantial growth in the assets under management of South Africa's contractual savings institutions over the past forty years, but their relative contribution to meeting public sector financing requirements has declined.

In recent years, banks and foreign investors have dominated net purchases of government bonds, while savings institutions have shifted their investments to equities and foreign assets.

Although retirement funds are the main vehicle through which households save, private retirement funds pass on over half of their investment management responsibilities to life insurers and collective investment schemes. Consolidation of the assets of these non-bank financial intermediaries, netting out their cross-investments, shows that the share of assets of savings institutions held in domestic public sector securities has fallen from nearly 50% in 1983 to under 20% today. The share of domestic marketable public debt held by these savings institutions has fallen from 80% in 2003 to 44% today.

The trend in respect of government pension funds has been even more marked. In the 1980s, their investments were entirely held in public sector securities, but this share is now about 25%. Even in recent years, when government's annual funding requirement has been unusually large, the Public Investment Corporation's (PIC's) investment flows have been dominated by equity purchases.

Part 1 of this analysis sets out trends in the contributions, benefits and asset holdings of South Africa's pension funds, and examines the role of contractual savings in meeting public sector financing requirements against the background of both regulatory reform and the wider macro-financial context.

Part 2 focuses on the Government Employees' Pension Fund (GEPF) and the associated investment mandate of the PIC.

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Part 1: South Africa's retirement funds, 1983-2024

INTRODUCTION[1]

This review outlines the evolution of South Africa's retirement funding institutions since the early 1980s, drawing on annual reports of the Registrar of Pension Funds and statistical coverage of non-bank financial institutions published in the Quarterly Bulletin of the South African Reserve Bank (the SARB). The primary focus of the review is the contribution of retirement funds to meeting the financing requirements of government and the wider public sector. In view of the role of life insurers and collective investment schemes (CIS funds) in managing assets on behalf of retirement funds and pensioners, we extend the analysis of assets under management to these intermediaries.

Though the 40-year scope of this analysis might seem long, it is a one-generation timespan: South Africans now entering retirement are likely to have been contributors over much or all of this period.

Household savings in South Africa are largely accumulated through regulated retirement funds, mainly for tax reasons. The tax structure is essentially an EET system (exempt contributions, exempt build-up of returns, taxable withdrawals). The resulting deferral of tax is a substantial benefit to income earners above the tax threshold. Retirement funds are the primary vehicles through which individuals and households smooth their lifetime incomes – setting aside funds during years of earning and drawing down on these savings in later life.

Until recently, the Income Tax Act distinguished between pension and retirement annuity (RA) funds that were obliged to pay annuities at retirement and provident funds that were not. Even in the pension fund environment, however, withdrawals are often taken before retirement (on changes in employment, for example), compromising the effectiveness of the system in providing for incomes in old age. Reforms that have taken effect after the period under review here will in due course change these trends.[2] Contributors to tax-privileged pension and provident funds are now obliged, at retirement, to convert two-thirds of a retirement fund accumulation into an annuity. Preservation has been strengthened[3] together with the introduction of a "two-pot" system through which access to a portion of accumulated funds before retirement is accommodated.

Private pension and provident funds are regulated through the Pension Funds Act (the PFA) and overseen by both the Prudential Authority at the SARB and the Financial Sector

[1] The initial impetus for this work was a research project on South Africa's financial architecture led by Professor Mark Swilling for the National Planning Commission. Comments on an earlier draft by Rowan Burger, Anton Nel and Stephen Smith and the assistance of Wilma Mokupo of the FSCA and Joel Mokoena and Sibongile Madonsela of the SARB are gratefully acknowledged. A seminar hosted by the Bureau for Economic Research provided helpful advice. Errors and omissions remain the author's responsibility.

[2] The change in trends will take a long time, as pre-retirement withdrawal rights as at 31 August 2024 remain vested.

[3] Though subject to vesting of pre-existing withdrawal rights and a *de minimus* R165,000 withdrawal right.

Conduct Authority (the FSCA), formerly the Financial Services Board (FSB). Official funds are governed through their own legislation, now broadly consistent with the requirements of the PFA, though the Minister of Finance still sets an investment mandate for the GEPF jointly with the board of trustees.

Private retirement funds are now mainly defined contribution plans, whereas the GEPF and several smaller public sector funds are rules-based final salary defined benefit schemes. Although Eskom and other state-owned enterprises have retained defined benefit arrangements, these are now mainly regulated as private funds.

Until 2008, a limited number of “industrial” or “bargaining council” funds established in terms of provisions of the Labour Relations Act were overseen by the Department of Employment and Labour (or its predecessors) and were not subject to the PFA. There were 16 such funds in 1995, with 180 000 members. Over time, these funds opted to register under the PFA and with effect from 2008 were obliged to do so. For the earlier years, they are included in “self-administered funds” below.

Over the period under review, there have been significant changes to the legislative and regulatory environment and to the structure and governance of retirement funds.

In the early 1980s, occupational savings plans came under the industrial relations spotlight as unions asserted their right to establish funds on behalf of their members and pressed for employer contributions as a remuneration benefit. Provident funds, often under union or bargaining council control, permitted accumulated funds to be withdrawn fully as lumpsums, whereas the tax treatment of pension fund withdrawals favoured annuitisation at retirement. The contractual savings landscape was therefore bifurcated, often leading to lumpsum withdrawals only, thus limiting the effectiveness of the system in funding lifetime income-smoothing arrangements.

Defined contribution (DC) plans became more popular, replacing traditional defined benefit (DB) arrangements in much of the private sector. Whereas DB funds often offered a richer set of benefits, the transition to DC funds was accompanied by separate group life arrangements to cover death and disability risks. Accounting standards contributed to the decline in employer-funded post-retirement medical scheme cover, sometimes replaced by compensating annuity products.

Prescribed asset regulations that obliged pension funds to invest in government securities have been replaced by a more open-ended prudential framework.

In 1996, a tax on interest and rental income of retirement funds was introduced, initially at a rate of 17%, raised to 25% in 1998, then lowered to 18% in 2003 and to 9% in 2006. The retirement fund tax was abolished from 1 March 2007.

Formerly under-funded official funds are now fully funded and over-generous “buy-back” provisions have been abolished. The annuities market, through which accumulated funds are converted into incomes on retirement, has matured. These developments are not discussed in any detail here – the focus of this paper is the aggregate of financial assets accumulated within these funds and their contribution to meeting public sector borrowing requirements.

For comparative purposes, over the 40-year period covered in this review, we rely on *nominal GDP* (gross domestic product at market prices, in current prices) as the benchmark numeraire. This is not without its complications. The national accounts are revised and rebased every five years or so. These revisions have led to substantial upward adjustments in the official time-series of GDP at current prices. For the mid-1990s, the accumulated upward adjustment in nominal GDP is particularly large – over 25%. This is the outcome of a wide range of methodological and coverage changes, but also of simplifying assumptions through which the national accounts for past years are adjusted to maintain broadly unchanged growth trends.

In the summary graphs and tables below, we rely mainly on trends over time measured against the current GDP estimates published after the 2021 benchmark and rebasing exercise. For the earlier years, therefore, the financial statistics we report are lower percentages of GDP than would have been calculated at the time. In some tables we also show trends relative to the *contemporary* nominal GDP estimates for the years in question, thus illustrating these differences.

THE MACRO-FINANCIAL CONTEXT

Financial intermediaries occupy a critical and sometimes contested place in the mobilisation of resources for development. Whereas *tax revenue* is unarguably raised primarily to serve the development and service-delivery responsibilities of public authorities, *domestic savings* serve a more complex set of purposes: income smoothing and wealth accumulation on the part of individuals and households, housing finance, allocations of capital to business investment, financing of public infrastructure investment and meeting the borrowing requirements of general government, amongst others.

South Africa's retirement funds exercise fiduciary oversight of household savings but are also indirectly trustees of a *deferred tax* liability of contributing members. The annual foregone tax associated with retirement fund contributions is approximately R90 billion at present. The *future tax liability* implicit in the accumulated assets of retirement funds is hard to quantify in the absence of distributional statistics and assumptions about the future breakdown between lumpsum and annuity benefits, but even at an average tax rate of just 15% it would be over R1 trillion. On the question as to whether this provides a rationale for the fiscal oversight of retirement fund investment mandates there will no doubt be divergent views.

In broad terms, South Africa has moved over the past four decades from a *dirigiste* approach to ensuring that contractual savings are directed towards meeting domestic investment requirements, and the borrowing needs of the state specifically, to a more open regulatory framework that allows wide discretion to financial intermediaries and fund managers. This has been a global trend, though with considerable variation internationally. The allocation of capital, both domestically and across borders, relies mainly on decentralised expertise and market competition, though in practice most portfolio decisions involve transactions in secondary markets rather than direct business investment or project lending.

The central argument of this paper is that South Africa's retirement funds, in this era of financial liberalisation, have moved too far from their traditional role as providers of "patient" capital for domestic public investment purposes and have adopted investment strategies that collectively over-weight equities and foreign investments. Banks have stepped in as lenders to government, but this has been at the expense of their traditional and economically fundamental role as lenders for housing development and to grow the enterprise economy. Institutional investors have sought greater returns through portfolios weighted in favour of equities and foreign assets, progressively under-weighting investment in government securities and public corporations.

Framed in such broad terms, this argument rests on evidence and judgements that are open to many interpretations. Some would say that fund managers have responded appropriately to long-term risks to the domestic economy and its public finances that justify the diversification strategies we have seen. Against this, our argument is that *macro-financial* stability is at risk if capital market trends move collectively against the wider investment requirements of the domestic economy.

In the appendix to this paper, we set out the institutional financing balances as estimated by the SARB for the 2015-2024 years. Though there are large shifts in savings and investment balances across these years – notably in the size of the domestic saving adjustment that financed the government's large borrowing requirement in 2020 and 2021 – there are several stand-out features of South Africa's macro-financial trends.

- Investment in and, therefore, the growth of the economy, depends on net foreign investment inflows. Except for the post-Covid 2021 year, gross domestic saving has been around 15% of GDP or lower over the past decade. In the years in which capital formation has been higher than this, the difference has been financed by net foreign investment flows, equivalent to 4% of GDP in 2015.

- Non-financial private corporations account for well over half of gross domestic savings throughout the past decade – and over 100% in 2020 and 2021 combined.

- Over the 2015-2019 period, the private corporate sector *invested* an aggregate amount equivalent to over 90% of its gross savings. Over the 2020-2024 period, private sector corporate investment was equivalent to just 61.5% of corporate savings.

- The general government borrowing requirement averaged 35.9% of gross domestic savings over the 10-year period. The combined government and public enterprise borrowing requirement averaged 41.3% of gross domestic savings.

- Monetary institutions (the SARB and banks) and non-bank financial intermediaries contributed net financing equivalent to 6.0% and 8.7% of gross domestic savings, on average, over the past decade. (This represents their net profits after capital spending. It does not include their *intermediation* role in recycling corporate deposits, say, into bond purchases or other financial asset acquisitions.)

The overall position in 2024 was as follows:

- Gross domestic saving amounted to 13.4% of GDP, barely enough to offset the estimated consumption of fixed capital.

- Capital formation was just 14.1% of GDP.

- Net inward foreign sector investment was equivalent to 0.7% of GDP – comprising inflows of 1.4% and outflows of 0.7% of GDP.

- The general government and public enterprise borrowing requirement was equivalent to 43.7% of gross domestic savings.

Our analysis shows that net purchases by retirement funds, insurers and other non-bank financial intermediaries were just 36.5% of government debt securities and bills issued in 2024 (Table 11 below), equivalent to 19.4% of their combined net acquisition of financial assets. In a year in which government and state enterprises had a financing requirement equivalent to 5.9% of GDP, whereas the private corporate sector and households (including unincorporated enterprises) ran a combined *net surplus* financial position, this seems, in macro-financial terms, to be a sizeable misallocation of capital.

This is a capital misallocation, in social welfare terms, that arises from the *collective* outcome of decentralised fund management decisions responding to future uncertainty and investment reluctance in the domestic economy. Perceived policy and investment risks reinforce weaknesses in business confidence and infrastructure development. An economic growth recovery requires better policies and structural reforms across many fronts.[4] Our focus in this paper is financial intermediation, not because it can lead structural change or substitute for broader improvements in the investment environment, but because future uncertainty unavoidably presents a system-wide coordination problem. If South Africa's rate of investment in social and economic infrastructure, housing, climate change adaptation and new technology is to be accelerated, capital must be mobilised through instruments that recognise our long-term collective interest in a sustainable and resilient development path.

SOURCES AND STATISTICAL COVERAGE

The most recent *Retirement Funds Statistical Report* of the FSCA indicates that in 2023 there were 4904 registered retirement funds.[5] However, around four-fifths of these are inactive or effectively preservation funds – their members are no longer contributors, many are in the process of liquidation or termination, and they hold assets equivalent to less than 2% of the total. Many no longer submit returns to the FSCA.

The reported financial statistics are derived from around 1 500 funds that submit returns, but over 80% of total assets are accounted for by the top 100 funds and over 98% by the top 500. The FSCA reports that funds in default of the requirement to submit returns are mainly small funds that are terminating or have ceased to operate. Amongst reporting

[4] National Treasury, *Economic Transformation, Inclusive Growth, and Competitiveness: A Contribution towards a Growth Agenda for the South African Economy*. Pretoria, 2019. Donaldson, A, et.al., *Inclusive development in South Africa: Elements of a structural reform strategy.* SA-TIED Working Paper 273, UNU-WIDER, November 2025.

[5] Annual reports of the Registrar of Pension Funds were published for 59 years by the FSB, with the last report for the 2017 year appearing in December 2018. For the 2018-2021 years, there were no published reports. In 2024 the FSCA published a Statistical Report on Retirement Funds that covered the 2021 and 2022 years, with some summary statistics for the 2018-2020 period. In April 2025 a report for 2023 was published. A report for 2024 is expected in April 2026. Where estimates are provided in this report for 2024, these statistics derive from the capital market statistics in the SARB's Quarterly Bulletin.

funds, furthermore, membership numbers are to some extent overstated as they include dormant members or account-holders with small inactive balances.

It is apparent that a *consolidation* of retirement funds has been in progress for many years and is continuing. In reports of the *Registrar of Pension Funds* in the 1990s, over 15 000 funds were counted. Many of these were dormant or winding down. Over time, "umbrella funds" operated by financial institutions ("commercial" umbrella funds) or established by unions, bargaining councils, sectoral determinations or for specific trades or occupations have taken over the pension and provident fund arrangements of smaller employers. The industry is dominated by a limited number of large firms, but they typically offer a wide diversity of investment products, offering employers, unions and individuals access to various alternatives to dedicated occupational funds.

Despite the number of funds in default of the reporting requirement, the statistics can reasonably be assumed to approximate the size of the industry in financial terms. Our focus is on the aggregate statistics of the retirement fund industry, rather than comparative statistics or the size distribution of funds.

Five further general qualifications should be noted:

- Whereas private sector funds typically reported calendar-year statistics to the registrar, official fund accounts reported for March year-ends. Until the 1990s, the March year-end accounts are consolidated with the previous year's calendar year statistics; in more recent years, quarterly reporting has allowed consistent calendar year estimates to be compiled.

- The Registrar's compilation of pension fund statistics does not adjust for the duplication of reported numbers associated with transfers of members between funds. Lumpsum "benefits" can be recorded, for example, that in fact reflect transfers to other funds, or – particularly in the early 1990s – transfers to "out-of-fund" pension-funding vehicles. Sizeable membership shifts between official and private funds have occurred in some years.

- Accounting standards have changed. Assets were largely reported at "book value" in the 1980s. There has been a gradual transition to market-based valuations since then, first in providing "fair value" accounting for equities, and more recently in mark-to-market valuations of debt securities. Historical cost or book-value accounting in the context of prescribed asset regulations had distorting effects on investment decisions and no doubt also on capital market efficiency. Where the registrar's reports provide alternative "fair value" estimates of equity holdings, these are used in the statistics reported below. Market valuation of debt securities creates difficulties for time-series comparisons: the same stock of interest-bearing securities is recorded at different "values" over time if market interest rates change. On the other side of the balance sheet, estimates of the market value of government debt are only available in the SARB's accounts for 2011 and after, and then only for national government debt[6] – the public debt statistics used in Table 8 below make use of

[6] With effect from the December 2018 *Quarterly Bulletin* (page S-54), market value estimates of the marketable debt of national government have been published as table KB455. As at 31 March 2025, the market value of total domestic marketable debt with a face value of R5 060 million was R4 428 million – a discount of 12.5%.

these data to estimate the market value of total public sector marketable domestic debt.

- The pension fund statistics include double counting in aggregate membership numbers, as individuals can hold several fund accounts or make contributions over their lifetimes to two or more funds (or may be in receipt of more than one pension or beneficiary annuity). Recent reports for private funds include statistics for "deferred benefit members/pensioners", presumably members of preservation funds. These numbers do not fully reflect the numbers of individuals who are members of several funds or hold RA accounts without making regular contribution payments. Mandatory preservation is likely to lead, over time, to rising numbers of individuals with low-value interests in one or more preservation funds.

- A significant gap in statistical coverage arises from the separation of pensioner members from their funds, in cases where annuities are purchased individually ("out of fund") from insurers on retirement. Whereas the GEPF and other defined benefit funds continue to hold assets on behalf of pensioners and pay pensions directly, this need not be the case in defined contribution funds or RA accounts. Contributors to such funds, or holders of deferred benefits in preservation funds, cease to be members once they have withdrawn their funds through lumpsums and annuity purchases. Annuity providers then hold assets against these pension liabilities. Drawing on SARB statistics we construct estimates of the annuities paid and funds held by life insurers against these pension obligations, but no official estimates are available of the associated pensioner numbers.

Drawing on SARS personal income tax statistics, Table 1 provides estimates of active *contributors* to retirement funds in 2020, alongside estimates of *non-contributors* broken down by taxable income groups and employment status. South Africa's retirement funds attract savings from high proportions of those who earn above the tax threshold (approximately R90 000 in 2021 prices) and of individuals in formal non-agricultural employment.

Table 1: Retirement fund contributors by income group and employment status, 2020

	Total Employment Q1 2020	Retirement fund Contributors		Non-contributors		Contributors as % of Total Employment
	('000s)	('000s)	%	('000s)	%	
Taxable Income (2021 prices)						
R0-45 000	5 406	657	9.4%	4 749	50.6%	12.20%
R45-90 000	3 932	915	13.1%	3 017	32.2%	23.30%
R90-35 0000	4 372	3 042	43.5%	1 330	14.2%	69.60%
>R350000	2 672	2 386	34.1%	287	3.1%	89.30%
Formal (non-agr/hhld)	11 282	6 553	93.6%	4 728	50.4%	58.10%
Informal (non-agr/hhld)	2 921	395	5.6%	2 525	26.9%	13.50%
Agriculture & Household	2 180	51	0.7%	2 129	22.7%	2.40%
Total	**16 383**	**7 000**	**100.0%**	**9 383**	**100.0%**	**42.70%**

Source: Own estimates, derived from South African Tax Statistics and Quarterly Labour Force Survey

GROWTH IN MEMBERSHIP AND CONTRIBUTIONS

Membership of retirement funds as reported in the official statistics is summarised in Table 2. Overall membership growth over the period 1983 to 2023 is 2.1% a year, which is broadly consistent with overall real growth in national income over this period of around 2.3% a year, and somewhat faster than the formal employment trend.[7]

The official pension fund statistics distinguish between "self-administered" funds that invest assets on their own behalf and are fully regulated in terms of the Pension Funds Act, and "underwritten" funds that operate exclusively through contractual arrangements ("insurance policies") with registered insurers and are exempt from some reporting provisions of the Act. Together with small numbers of foreign funds supervised under the Act and industrial (bargaining council) funds overseen until 2009 by the Department of Labour, these comprise the "private funds" reported below. Funds established by law for employees of the state and certain associated institutions (official funds) and "state-controlled" funds of certain parastatal entities (Transnet, Telkom and the Post Office) are not supervised under the PFA and are classified below as "statutory" or "official" funds. There have been changes over time in the classification of funds and in the retirement arrangements of employees of state institutions. In the early 1990s, for example, a number of parastatals and "associated institutions" such as universities, introduced defined contribution funds or offered their staff the opportunity to transfer membership to private funds. These changes are not explored in this study, nor do we deal with shifts over time in the balance between self-administered and underwritten funds.

Table 2: Reported membership of retirement funds, 1983-2023

('000s)	1983	1993	2003	2013	2021	2022	2023	Increase pa 1983-2023
Total membership (including pensioners)								
Privately (self-) administered funds	2 262.2	3 206.5	3 165.5	6 512.0	7 462.3	6 424.2	7 737.0	*3.1%*
Underwritten (exempt) funds	2 639.9	4 605.4	5 098.3	3 492.2	2 967.3	4 388.3	4 306.8	*1.2%*
Statutory funds (incl GEPF)	1 211.2	1 497.5	1 531.9	1 811.3	1 871.0	1 877.9	1 901.8	*1.1%*
Total	**6 113.3**	**9 309.3**	**9 795.7**	**11 815.4**	**12 300.6**	**12 690.4**	**13 945.5**	***2.1%***
Average annual growth over 10 years:		*4.3%*	*0.5%*	*1.9%*			*1.7%*	
Privately administered and underwritten funds								
Active members	4 653.6	7 275.0	7 489.0	9 054.1	9 399.4	9 609.9	10 601.1	*2.1%*
Deferred pensioners	0.0	160.0	61.2	432.2	479.5	598.1	582.5	-
Pensioners & dependant beneficiaries	248.5	887.3	637.4	517.4	550.6	604.5	860.2	*3.2%*
Statutory funds (incl GEPF)								
Active members	1 058.6	1 188.9	1 150.8	1 356.4	1 336.5	1 326.7	1 329.0	*0.6%*
Pensioners & dependant beneficiaries	152.6	308.6	381.1	454.8	534.5	551.2	572.7	*3.4%*
Memo: Persons entitled to unclaimed benefits				*3 440.4*	*4 313.3*	*4 630.0*	*4 696.0*	
Total active members	**5 712.2**	**8 463.9**	**8 639.7**	**10 410.5**	**10 735.9**	**10 936.6**	**11 930.1**	***1.9%***
Compare: Individual RF contributors estimated from PIT statistics (2014 taxyear, '000s)						**Extrapolation to 2022 ('000s)**		
Pension funds				2 977		3 150		
Provident funds				3 400		3 750		
Retirement annuity funds				1 735		1 900		
Total number of individual contributors				**6 864**		**7 400**		
Implied duplicate membership between provident, pension and RA funds:				*1 248*		*1 400*		
Shortfall between reported active members & PIT contributors:				*2 298*		*2 200*		
Total active members:				***10 410***		***11 000***		

Sources: Financial Services Board, Annual reports of the Registrar of Pension Funds; Financial Sector Conduct Authority, Retirement Fund Statistical Reports. Estimates from PIT statistics: Donaldson, 2023.

Notes
1.Bargaining Council (formerly Industrial) funds are included with privately administered funds.
2.Privately administered and underwritten fund membership for 2003 estimated as average of 2002 and 2004 membership.
3.Statutory funds include funds administered by the National Treasury and Transnet, Telkom and Post Office funds.
4.Reported membership numbers overstate the numbers of individual contributors or pensioners due to duplicate membership of funds.
5.Purchasers of annuities "out of fund" from life insurers are excluded from these reported statistics, irrespective of whether the accumulation of such funds occurred as members of privately administered or underwritten funds.

[7] Non-agricultural formal employment increased by about 1.7% a year between 1983 and 2023.

The reported membership numbers in Table 2 show substantial variation in the trend over the period under review.[8] Reported membership numbers grew by about 50% between 1983 and 1993 (4.3% a year) and increased by just 5.2% over the following decade before recovering to increase moderately during the 2000s. The reported numbers of pensioners in private funds increased sharply between 1983 and 1993 and then declined over the next twenty years.

These are not accurate representations of the trends. The accompanying financial data show that in 1993 and subsequent years there were substantial *transfers* between funds, presumably associated with an increase in participation in umbrella funds, which could have resulted in duplicate reporting of membership numbers. It is possible that the consolidation of funds in subsequent years led to some reduction in duplicate membership reporting. It also seems likely that the trend towards defined contribution funds over these early years was associated with a subsequent rise in the proportion of retiring members who opted for "out-of-fund" annuity purchases, resulting in a substantial and increasing understatement of pensioner numbers in the 2000s.[9]

We show numbers for 2021 and 2022 in addition to 2023. The official numbers show implausibly large increases in both active contributors and pensioners of private funds between 2022 and 2023.[10] We take the view that the 2023 numbers are inflated by mergers or transfers between funds, or other sources of double-counting, and for interpretive purposes we rely on the 2022 estimates.

More broadly, the official reports suggest that membership of *private* retirement funds has increased somewhat faster than membership of official (statutory) funds, and that by comparison with the 1980s, pensioner (and dependent beneficiary) numbers have increased more rapidly than active (contributing) members.

Recent reports of the FSCA include statistics on "persons entitled to unclaimed benefits" derived from private funds submissions (self-administered and underwritten funds). These numbers are very high – 4.7 million in the most recent report – and presumably reflect an aggregation of contributors with unclaimed benefits that goes back many years, in most cases of small amounts. We exclude these numbers from this review.

In interpreting the official pension fund statistics, it is helpful to compare the reported "active" members with estimates of actual retirement fund contributors derived from SARS personal income tax statistics. Our estimates, for the 2014 tax-year, indicate that there were approximately 6.9 million individual contributors to retirement funds reported to SARS in 2013/14.[11] The tax statistics include separate estimates for pension fund, provident fund and retirement annuity fund contributors. These add up to 8.1 million, indicating approximately 1.25 million individuals who contributed to two categories of

[8] For 2003 we take the average membership numbers reported in 2002 and 2004 for self-administered and underwritten funds, as the official reports show an implausible decline in membership in 2003.

[9] A possible explanation for the decline in pensioner members in private funds after 1993 lies in the rules that accompanied the introduction in 1996 of the tax on interest and rental income of retirement funds. To protect pensioners' interests, the tax did not apply to assets held on behalf of pensioners. This was calculated on a proportionate basis for funds that included active and pensioner members. A reduction in the tax liability could therefore be achieved by transferring pensioner members, together with investments weighted in favour of interest-bearing securities, to the untaxed policyholder funds of life insurers.

[10] Reported total membership increased by 3.6% between 2021 and 2022 and by 9.9% between 2022 and 2023.

[11] See Donaldson, A.R (2023). *The South African personal income tax base, 2011-2018: Income and taxable income, adjusted for retirement fund and medical expense reporting changes.* Cape Town: Southern Africa Labour and Development Research Unit, University of Cape Town. (SALDRU Working Paper Number 291).

funds in that year. Comparison of this 8.1 million total with the 10.4 million aggregate number of active members reported in the pension fund statistics suggests that some 2.3 million non-pensioner members are either duplicate contributors *within* the pension, provident fund or RA fund groups (some of whom might have moved from one fund to another) or are dormant members (in addition to 432 000 reported deferred pensioners) who are registered as active members but were not reported to SARS as actual contributors in the relevant tax-year. Many of these would be holders of RA accounts to which they were no longer contributing.

We extrapolate this 2013 breakdown to generate a possible breakdown of the 2022 "active" membership numbers. This exercise generates a projected 7.4 million individual taxpayers in 2022, reported to SARS as retirement fund contributors. Of these, 1.4 million would be duplicate contributors between the pension, provident fund and RA categories, leaving a shortfall of 2.2 million "active" members, perhaps duplicate contributors within one of the fund categories, but more likely dormant or paid-up members who are not yet drawing annuity or other benefits. This yields the following rough estimates of the current retirement fund membership base, excluding pensioners and dependent beneficiaries:

	Million
Active individual members reporting contribution deductions to SARS	7.4
Including: Contributors to two different categories of funds	1.4
Duplicate membership within retirement fund categories	0.2
Paid-up or dormant (not contributing) members	2.0
Total registered active fund membership	**11.0**

This suggests that about 9.4 million people are either active contributors or hold retirement fund assets, not yet withdrawn or in drawdown phase.

The official statistics indicate 1.2 million recipients from retirement funds of pensions or benefits as dependents or nominees in 2022.[12] There is some duplication within these numbers: the number of individual annuity recipients is perhaps between 1.0 and 1.1 million. *In addition*, pensions paid out-of-fund by life insurers (see below) go to perhaps 0.6-0.7 million additional recipients, after adjusting for double-counting between in-fund and out-of-fund pensioners (or individuals in receipt of more than one annuity product).[13] So there are perhaps 1.6-1.8 million regular pension or annuity recipients at present, recognising that there is some duplication between in-fund and out-of-fund annuitants. This is somewhat higher than the aggregate number of individuals over the age of 65

[12] The 2023 statistical report of the FSCA indicates 676 180 pensioners or other beneficiaries of self-administered private funds in 2023, up from 406 202 in 2022, an increase of 66%, which is clearly implausible. The increase may reflect a change in reporting standards, perhaps extending coverage to pensioners paid by life insurers. We take the 2022 numbers to be a more plausible aggregate for in-fund pension recipients.

[13] Consolidated statistics of the life insurers for the beginning of 2024 indicate approximately 600 000 life annuitants and 510 000 income-drawdown investors (after restatement), of whom about 200 000 were pensioners or dependents of underwritten funds, or about 900 000 out-of-fund pensioners or dependents (including double-counting).

whose incomes are reported to SARS,[14] as it should be given that there are significant numbers of annuity recipients below age 65.

These are at-best indicative estimates, as the underlying data are not structured in a way that would allow more reliable statistics on retirement fund participation to be extracted. It seems clear that reform of the reporting templates is needed to obtain a more complete picture.

Table 3 provides an outline of the trend in *contributions* to retirement funds over our review period.

Table 3: Contributions to retirement funds, 1983-2024

(R millions)	1983	1993	2003	2013	2021	2022	2023	2024	Increase pa 1983-2023
Privately (self-) administered funds	2 161	10 161	25 107	93 057	148 010	156 438	164 535		*11.4%*
Underwritten (exempt) funds	1 568	6 184	21 562	31 650	36 490	51 681	54 189		*9.3%*
Statutory funds (incl GEPF)	1 663	7 307	18 182	50 109	85 239	89 427	87 299		*10.4%*
Of which: Public service/GEPF		*5 250*	*16 724*	*47 003*	*80 629*	*84 968*	*82 969*		
Total	**5 392**	**23 652**	**64 851**	**174 816**	**269 739**	**297 546**	**306 023**		***10.6%***
Contributions as % of GDP									
% of contemporary GDP estimate	*6.0%*	*6.2%*	*5.1%*	*4.9%*	*4.3%*	*4.5%*	*4.4%*		
% of current (rebased) GDP estimate	*5.0%*	*4.9%*	*4.4%*	*4.5%*	*4.3%*	*4.5%*	*4.4%*		
Contributions as % of Compensation of Employees									
% of contemporary estimate	*11.3%*	*11.2%*	*11.3%*	*10.7%*	*9.4%*	*9.9%*	*9.6%*		Increase pa
% of current (rebased) estimates	*9.1%*	*9.7%*	*9.8%*	*9.4%*	*9.4%*	*9.9%*	*9.6%*		2021-2024
Compare: Contributions to retirement funds reported in SARB Quarterly Bulletin data series:									
Private funds				*124 686*	*193 455*	*207 689*	*211 867*	*231 228*	6.1%
Official funds		*10 715*	*17 608*	*55 057*	*88 251*	*87 144*	*94 660*	*103 501*	5.5%
Total				***179 743***	***281 706***	***294 833***	***306 527***	***334 729***	5.9%
Compare: Contributions to funds estimated from PIT statistics (2014 taxyear):				***187 400***					

Sources: Financial Services Board, Annual reports of the Registrar of Pension Funds; Financial Sector Conduct Authority, Retirement Fund Statistical Reports. SARB, Quarterly Bulletin data series, as published 2025. Estimate from PIT statistics: Donaldson, 2023.

The official statistics indicate that contributions to retirement funds have increased by 10.6% a year since 1983, or about 2.5% a year in real (CPI-inflation adjusted) terms. Since 2021, aggregate contributions have increased by just under 6% a year. As a percentage of GDP *as measured at the time*, aggregate retirement fund contributions have fallen from 6.0% to 4.4%, but as measured against the current *rebased* estimates of GDP the decline has been more moderate, from 5.0% to 4.4%. Measured against the current estimates of aggregate compensation of employees, contributions to funds have increased from 9.1% in 1983 to 9.6% in 2023. In sum, approximately 4.5% of national income is channelled into retirement fund savings every year, or just under 10% of total remuneration of employees.

Private retirement funds account for 72% of total contributions, and their share of the total has increased marginally over the 40-year period. In view of uncertainties around duplicate and deferred membership, it is not possible to compare average rand contribution rates between different categories of funds reliably, but it is notable that private funds account for a higher proportion of *reported* active members by comparison with statutory or official funds, than of contributions.

[14] Our estimate is that 1.2 million individuals over the age of 65 reported income to SARS in 2018 or were included in IRP5 submissions from retirement funds or life insurers. Not all would have been in receipt of pensions, and substantial numbers of pensioners or dependants would have been younger than 65.

In addition to estimates derived from the official pension fund statistics, Table 3 shows contribution aggregates derived from the SARB Quarterly Bulletin's retirement fund accounts, and an estimate of contributions to funds derived from SARS personal income tax statistics for the 2014 tax-year. The SARB aggregate contribution estimates for 2013 and 2023 are close to the pension statistics numbers, though there is some difference in the breakdown between private and statutory funds. The PIT statistics indicate aggregate contributions of R187.4 billion in the 2014 tax year, which is 7.2% higher than the 2013 calendar year estimate derived from pension fund returns.

On balance, this implies that the double-counting and estimated non-contributing membership within the officially reported "active" membership suggested above is a reasonable interpretation: the reported tax statistics estimate of around 7 million actual individual contributors in 2013/14 yields a contribution aggregate somewhat higher than the pension statistics estimate. The difference might in part be accounted for by under-reporting by pension funds to the former FSB, though this would not alter the finding above relating to duplicate and dormant membership.

RETIREMENT FUND BENEFITS

Table 4 summarises the official statistics on benefits paid, supplemented with estimates of out-of-fund pensions paid by life insurers derived from SARB Quarterly Bulletin data.

These estimates assume that "annuities expense" in the accounts of life insurers comprise out-of-fund pension payments arising from the purchase of life or living annuities out of the proceeds of private retirement fund accumulations. This is a simplifying assumption that ignores the possible purchase of annuities from other savings sources, or possible overlaps between the life insurers' accounts and the retirement funds that they manage. However, the resulting estimates seem plausible and complement the otherwise low levels of annuity benefits reported as paid by both self-administered and underwritten funds. The SARB data series of annuities expenses goes back to 1993. For 1983, we estimate this expense as 9% of underwritten funds' assets.

The resulting estimate of total pensions and annuities benefits of R81.5 billion in 2013 is 71% of our estimate of taxable income in the 2013/14 tax-year of individuals over the age of 65.[15] This is indicative of the substantial role that the retirement funding system plays in lifetime income smoothing.

[15] "Adjusted" estimate of taxable income in 2014, to align with subsequent exclusion of medical tax deductions in favour of credits against tax liability. See Donaldson (2023), op. cit.

Table 4: Retirement fund benefit withdrawals, 1983-2024

(R millions)	1983	1993	2003	2013	2021	2022	2023	2024	Increase pa 1983-2024
Private (self-administered and undewritten) funds									
Pensions & beneficiary payments	478	6 146	13 395	20 788	29 154	29 863	31 366	36 516	*11.2%*
Lumpsum (death & retirement) benefits	448	5 056	15 665	53 508	137 511	133 425	137 851	160 484	*15.4%*
Sub-total	***926***	***11 202***	***29 060***	***74 296***	***166 665***	***163 288***	***169 217***	***197 000***	***14.0%***
Other withdrawals/transfers	433	4 478	24 119	50 968	93 204	106 786	103 715	118 085	*14.7%*
Total	**1 359**	**15 680**	**53 179**	**125 264**	**259 869**	**270 074**	**272 932**	**315 085**	***14.2%***
Pensions paid by Life Insurers (out-of-fund annuitisation)									
Pensions & beneficiary payments	800	6 716	22 470	36 179	78 721	80 712	94 546	101 548	*12.5%*
Total pension payments from private funds	***1 278***	***12 862***	***35 865***	***56 967***	***107 875***	***110 575***	***125 912***	***138 064***	***12.1%***
Statutory funds									
Pensions	674	4 394	11 711	24 510	59 286	65 338	72 667	90 263	*12.7%*
Lumpsum (death & retirement) benefits	350	1 064	4 275	6 496	32 183	45 502	36 043	24 922	*11.0%*
Other withdrawals/transfers	203	8 236	4 153	16 595	34 301	43 211	40 169	53 472	*14.6%*
Total	**1 227**	**13 694**	**20 139**	**47 601**	**125 770**	**154 051**	**148 879**	**168 657**	***12.8%***
All retirement funds and annuities managed by Life Insurers									
Pensions and annuity benefits	1 952	17 256	47 576	81 477	167 161	175 913	198 579	228 327	*12.3%*
Lumpsum (death & retirement) benefits	798	6 120	19 940	60 004	169 694	178 927	173 894	185 406	*14.2%*
Sub-total	***2 750***	***23 376***	***67 516***	***141 481***	***336 855***	***354 840***	***372 473***	***413 733***	***13.0%***
Other withdrawals/transfers	636	12 714	28 272	67 563	127 505	149 997	143 884	171 557	*14.6%*
Total	**3 386**	**36 090**	**95 788**	**209 044**	**464 360**	**504 837**	**516 357**	**585 290**	***13.4%***
Compare: RF Lumpsum withdrawals based on PIT statistics (2014 taxyear):				*115 900*					
Average real annuity pension benefits paid (R per annum, 2023 prices)									*Increase pa 1983-2023*
Private funds (in-fund only)	41 224	39 097	55 747	66 474	59 265	52 953	53 448		*0.7%*
Statutory funds	94 654	80 368	86 893	89 156	125 953	125 548	126 878		*0.7%*
All funds	**61 552**	**49 747**	**66 939**	**77 086**	**92 115**	**87 575**	**89 172**		**0.9%**
Benefits paid and withdrawals - all retirement funds and annuities managed by life Insurers as % of GDP (current estimates)									
Pensions and annuity benefits	*1.8%*	*3.6%*	*3.2%*	*2.1%*	*2.7%*	*2.6%*	*2.8%*	*3.1%*	
Lumpsum (death & retirement) benefits	*0.7%*	*1.3%*	*1.3%*	*1.6%*	*2.7%*	*2.7%*	*2.5%*	*2.5%*	
Sub-total	*2.6%*	*4.9%*	*4.5%*	*3.7%*	*5.4%*	*5.3%*	*5.3%*	*5.6%*	
Other withdrawals/transfers	*0.6%*	*2.6%*	*1.9%*	*1.7%*	*2.0%*	*2.3%*	*2.0%*	*2.3%*	
Total	*3.2%*	*7.5%*	*6.4%*	*5.4%*	*7.5%*	*7.6%*	*7.4%*	*8.0%*	

Sources: Private funds: 1983-2003, Financial Services Board, Annual reports of the Registrar of Pension Funds; 2013-2023, SARB Quarterly Bulletin. Pensions paid by Life Insurers: SARB Quarterly Bulletin. Statutory fund benefit payments; FInancial Service Board and Financial Sector Conduct Authority Annual Statistical Reports.

Notes:

1.Pensions paid by Life Insurers in 1983 estimated as 9% of assets held by underwritten funds

2.Other withdrawals / transfers out of private funds may include transfers to purchase "out-of-fund" annuity products.

3.To calculate average pension benefits, pensioner and annuity beneficiary numbers as reported in the FSCA pension statistics are used, except for 2023 where the 2022 numbers are used in respect of private funds.

The main difficulty in interpreting these statistics is that “other withdrawals/transfers” from funds comprise several kinds of transfer, some that count as withdrawals in favour of contributors (such as lumpsums paid on work resignations) and others that involve transfers between funds, such as to preservation funds or purchase of out-of-fund annuities. It is evident, for example, that there were unusually large withdrawals or transfers out of statutory funds in 1993, at least some of which would have involved transfers from state funds to private funds or retirement annuities.

It is apparent that benefits and withdrawals have increased more rapidly than contributions since 1983, with much of the increase occurring between 1983 and 1993. It is also striking that annuitised pension benefits have increased more slowly than lumpsum benefits and other withdrawals. In the breakdown between pensions and lumpsum benefits, there is a clear difference between private funds and statutory funds. Though 1993 was somewhat anomalous, annuitised pensions are a substantially higher proportion of retirement fund withdrawals in statutory funds – a consequence both of the defined-benefit character of these funds and of the less restricted regulatory framework governing registered provident funds until the recent reforms.

The reported statistics suggest that there have been marked shifts over time in benefit flows from retirement funds, measured relative to GDP.

- Reported pension benefits and death and retirement lumpsums increased from 2.6% to 4.9% of GDP between 1983 and 1993. There was an even greater increase in the “other withdrawals/transfers” category. There were marked increases in pension and lumpsum benefits paid by both private and statutory funds, though the increase was greater in private funds. It is apparent that the increase in annuity benefits paid (within funds) as a percentage of GDP was a result of a rise in pensioner numbers, not an increase in the real value of pensions.

- Between 1993 and 2003 and between 2003 and 2013, pension and annuity benefits declined as a percentage of GDP, from 3.6% in 1993 to 3.2% in 2003 and 2.1% in 2013. There was an increase in death and retirement lumpsum payments as a percentage of GDP between 2003 and 2013, and so this appears to have been a result of an earlier deterioration (rise) in the proportion of benefits taken in the form of lumpsums rather than pension annuities. Other withdrawals and transfers declined as a percentage of GDP, which supports the view that the 1993 numbers were anomalous. Average real (in-fund) annuity benefits increased over the 1993-2013 period, particularly in private funds.

- Between 2013 and 2021-2024 there are again marked increases in pension benefits and death/retirement lumpsums paid as a percentage of GDP, with the total rising from 3.7% to 5.4% in 2021 and to 5.6% in 2024. The rise in death/retirement lumpsum payments is particularly striking, driven in part by a rapid increase in lumpsum payments by statutory funds. Other withdrawals/transfers also increase as a percentage of GDP between 2013 and 2021-2024. Average real annuity payments (estimated for 2023 based on 2022 private pensioner and beneficiary numbers), increase sharply in statutory funds but decline in private funds. This is not a consequence of reduced aggregate pension payments, but of a marked increase in reported pensioner numbers and dependent beneficiaries in privately administered funds. This may result from changes in reporting procedures (see footnote 12).

A helpful comparative check on the official estimates of lumpsum benefit payments is provided by the PIT statistics, which indicate that about R115.9 billion was received by taxpayers as lumpsum pension withdrawals in the 2014 tax-year. This implies that in addition to the R60 billion reported in the pension statistics as retirement or death lumpsum payments, other terminations or withdrawals by individuals amounted to around R55 billion, out of the R67.6 billion reported as “other withdrawals/transfers”. This implies, in turn, that less than R20 billion was transferred or withdrawn from retirement funds to purchase out-of-fund annuities from life insurers. This seems too low, in relation to subsequent annual annuities expenses.

The official statistics indicate that after two decades of decline, there has been a significant increase in both regular pension payments and lumpsum withdrawals from retirement funds as a percentage of GDP since 2013. Contributions to funds, in contrast, have stabilised or declined somewhat relative to GDP. The data suggest that the overall increase in benefits payments is largely a consequence of rising pensioner numbers, but because nearly half of annuity/pension payments are drawn from accounts purchased out-of-fund, and because many individuals hold two or more retirement fund accounts, we have an incomplete picture of trends in individual numbers and the distribution of benefits.

Substantial reforms to the official reporting templates are needed, including a more complete consolidation of retirement fund records and the pension business of life insurers, if the role of the retirement fund system in lifetime income smoothing and income security is to be well understood.

RETIREMENT FUND ASSETS

We provide a scan below of the consolidated asset base of retirement funds, and the distribution of their investments over the past 40 years, with a particular focus on holdings of public sector securities.

Table 5 summarises the growth since 1983 of retirement fund assets. As reported by the FSB/FSCA, retirement fund assets increased from 35% of GDP (current rebased estimates) in 1983 to 83% in 2013 and remained around this level in recent years.

Table 5: Retirement fund assets, 1983-2024

(R billions)	**1983**	**1993**	**2003**	**2013**	**2021**	**2022**	**2023**	**2024**	Increase pa 1983-2023
Retirement fund assets reported by the Financial Services Board/Financial Sector Conduct Authority (fair/market value)									
Privately (self-) administered funds	19.3	164.5	369.1	1 484.2	2 421.5	2 506.1	2 718.7		*13.2%*
Underwritten (exempt) funds	8.9	71.4	213.1	375.9	470.3	648.9	689.0		*11.5%*
Total: Private funds	***28.2***	***236.0***	***582.2***	***1 860.1***	***2 891.9***	***3 155.0***	***3 407.7***		***12.7%***
Statutory funds (incl GEPF)	8.7	81.7	326.9	1 350.9	2 210.7	2 407.3	2 434.4		*15.1%*
Of which: Public service/GEPF		*61.2*	*291.6*	*1 263.3*	*2 103.7*	*2 304.7*	*2 332.9*		
Total (estimated market value)	**36.9**	**317.6**	**909.1**	**3 211.0**	**5 102.5**	**5 562.3**	**5 842.1**		***13.5%***
Statutory funds as % of Total	*23.6%*	*25.7%*	*36.0%*	*42.1%*	*43.3%*	*43.3%*	*41.7%*		
Memo: Book value of assets: Private funds	*26.8*	*195.0*							
Total assets of retirement funds as % of GDP									
% of contemporary GDP estimate	*41.1%*	*83.1%*	*72.1%*	*90.7%*	*82.0%*	*83.6%*	*83.2%*		
% of current (rebased) GDP estimate	*34.5%*	*66.0%*	*61.0%*	*83.0%*	*82.0%*	*83.6%*	*83.2%*		
Of which: Private funds	*26.3%*	*49.1%*	*39.1%*	*48.1%*	*46.5%*	*47.4%*	*48.5%*		Increase pa
Statutory funds	*8.1%*	*17.0%*	*21.9%*	*34.9%*	*35.5%*	*36.2%*	*34.7%*		2021-2024
Compare: Retirement fund assets as reported in SARB Quarterly Bulletin data series:									
Private funds	26.9	195.3	625.2	1 982.3	3 171.7	3 081.8	3 491.2	3 808.1	*6.3%*
% of current (rebased) GDP estimate	*25.1%*	*40.6%*	*41.9%*	*51.2%*	*51.0%*	*46.3%*	*49.7%*	*51.9%*	
Official funds	10.2	88.8	387.0	1 505.6	2 369.7	2 379.8	2 519.3	2 747.8	*5.1%*
Total	**37.1**	**284.0**	**1 012.2**	**3 487.9**	**5 541.4**	**5 461.5**	**6 010.4**	**6 555.8**	***5.8%***
% of current (rebased) GDP estimate	*34.6%*	*59.0%*	*67.9%*	*90.2%*	*89.1%*	*82.1%*	*85.6%*	*89.4%*	

Source: Financial Services Board, Annual reports of the Registrar of Pension Funds; Financial Sector Conduct Authority, Retirement Fund Statistical Reports. SARB Quarterly Bulletins

Notes:

1. Assets of retirement funds exclude assets held by insurers against individually held (out of fund) annuity products.
2. Differences between FSB and SARB estimates in 1983 and 1993 partly accounted for by fair value adjustments and combination of calendar year and March year-end reports in FSB statistics. In subsequent years SARB may have access to more complete coverage of funds.

Assets held by statutory funds increased steadily over the 40-year period, from 8% of GDP in 1983 to around 35% in recent years. This increase reflects the transition from severely under-funded official pension funds in the early 1980s to an actuarially fully funded position from the early 2000s onwards, and the broadening of the GEPF investment mandate to include shares in companies and foreign assets. The rise in the proportion of retirement fund assets held by statutory funds, from 24% to around 42% at present, is mainly a consequence of measures taken in the 1980s and 1990s, including increased contribution rates, to improve the funding levels of official funds.

The reported assets of private funds increased strongly from 26% of GDP in 1983 to 49% in 1993, fell back to 39% in 2003 and increased again to between 46% and 49% in 2013 and the 2021-2023 period. The numbers for individual years between 1993 and 2003 reflect considerable financial volatility – an increase in private fund assets to 54% of GDP in 1994, a steep decline from 50% to 43% between 1999 and 2000, followed by a rise to 47% in 2001 and a decline to 40% in 2002. By 2006, the total increases to 49%. The declines in 2000 and 2002 are arguably in part a result of the deterioration in equity markets that followed the financial crisis in 1999. There also appear to be substantial adjustments in the transition to market valuations over this time, and in several years, there are large lump-sum outflows associated with membership terminations. It is striking that this period of relative decline in private retirement fund assets coincides with strong increases in assets held by life insurers and CIS funds.

As reported in the SARB Quarterly Bulletin, the 40-year trend is somewhat different. For the early decades the SARB capital market accounts report somewhat lower estimates for private funds, but these appear to be book-value aggregates, whereas the FSB estimates reported here include fair-value adjustments of listed equities. In 2003, 2013 and 2021 the SARB estimates are higher than the FSB/FSCA aggregates. In 2022 and 2023 the differences are small. The outcome is that in the SARB accounts, retirement fund assets increased from 35% of (rebased) GDP in 1983 to 90% in 2013 before falling back to around 86% in 2023 and 89% in 2024.

In sum: both the pension fund statistics and the corresponding national accounts estimates indicate a substantial rise relative to GDP in total assets held by retirement funds between 1983 and 2013. However, there are valuation difficulties in interpreting the trend and some differences between alternative sources due to inconsistencies in classification and reporting criteria.

In Table 6 we set out estimates for the distribution of assets held by regulated private funds, drawing mainly on the SARB's consolidated retirement fund accounts. (These breakdowns differ from the summary tables included in the FSCA's pension statistics, mainly because the FSCA classifies foreign assets as a separate investment category, whereas the SARB accounts include foreign assets within the main instrument categories and then report the foreign components as a consolidated share of the total.)

Table 6: Distribution of private retirement fund assets, 1983-2024

	1983	1993	2003	2013	2021	2022	2023	2024
% of assets held by private retirment funds (SARB capital market accounts)								
Non-financial & other assets (incl property)	6.3%	6.2%	4.6%	2.5%	1.9%	2.0%	1.9%	1.9%
Interestbearing securities - domestic public sector	28.5%	11.9%	6.9%	6.1%	6.5%	6.6%	6.2%	6.4%
Of which: Government stock	*15.0%*	*8.4%*	*5.9%*					
Interestbearing securities (private sector & foreign)	4.0%	1.3%	2.8%	3.3%	2.5%	3.0%	3.2%	2.6%
Equity (shares in companies)	11.3%	16.8%	22.9%	20.3%	19.7%	19.4%	20.2%	19.2%
Collective investment scheme securities	0.2%	0.9%	4.4%	13.3%	15.8%	15.6%	16.2%	15.5%
Loans	4.2%	0.7%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%
Insurance policies/funds invested with insurers	41.0%	54.6%	54.4%	51.4%	50.5%	50.2%	49.4%	51.1%
Cash and deposits	4.5%	7.5%	3.6%	3.1%	3.0%	3.1%	2.9%	3.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Total assets (R billion)	***26.9***	***195.3***	***625.2***	***1 982.3***	***3 171.7***	***3 081.8***	***3 491.2***	***3 808.1***
Of which: Foreign assets			*4.6%*	*17.4%*	*24.9%*	*23.1%*	*27.0%*	*30.1%*

Source: SARB Quarterly Bulletin, Capital Market accounts; CIS investments derived from FSB Annual reports of the Registrar of Pension Funds and FSCA Retirement Fund Statistical Reports.

Notes:

1. Assets of retirement funds exclude assets held by insurers against individually held (out of fund) annuity products.
2. Foreign assets include secondary listings on South African exchanges.

This is clearly an incomplete picture of the distribution of investments by private retirement funds, as it does not reflect details of the assets held by life insurers and CIS funds on behalf of retirement funds.[16] It also excludes investments on behalf of out-of-fund pensioners and annuitants.

Table 7 sets out a similar distribution of investments by official retirement funds, drawn from the SARB Quarterly Bulletin data series. (These comprise the GEPF and its predecessors, together with the remaining statutory funds of Transnet, Telkom and the Post Office.)

Table 7: Distribution of investments of official retirement funds, 1983-2024

	1983	1993	2003	2013	2021	2022	2023	2024
% of assets held by official funds (SARB estimates)								
Non-financial & other assets (incl property)	4.4%	3.5%	2.9%	1.1%	2.6%	2.5%	2.6%	2.4%
Interestbearing securities - domestic public sector	86.3%	76.1%	47.2%	28.2%	29.7%	29.6%	28.0%	28.6%
Of which: Government stock	*67.6%*	*62.2%*	*44.2%*	*19.6%*	*23.4%*	*23.5%*	*22.4%*	*23.1%*
Interestbearing securities (private sector & foreign)	0.0%	5.3%	8.0%	2.5%	1.2%	1.2%	1.6%	1.9%
Equity (shares in companies) & CIS investments	0.0%	11.9%	38.4%	63.5%	61.8%	62.5%	62.0%	63.8%
Loans	8.0%	0.0%	0.0%	0.4%	2.7%	2.3%	2.2%	2.0%
Cash and deposits	1.3%	3.3%	3.6%	4.2%	2.0%	1.8%	3.6%	1.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Total assets (R billion)	***10.2***	***88.8***	***387.0***	***1 505.6***	***2 369.7***	***2 379.8***	***2 519.3***	***2 747.8***
Of which: Foreign assets				*20.6%*	*22.7%*	*22.7%*	*23.5%*	*24.2%*

Source: SARB Quarterly Bulletin, Capital Market accounts.

Note: Foreign assets include secondary listings on South African exchange

[16] Regulation 28 of the Pensions Fund Act requires "look-through" reporting of investments held on behalf of retirement funds, excluding investments held by issuers certified as compliant. The exemption rules appear to have tightened: in 2022, 30% of assets were excluded from the Regulation 28 compliance schedule; in 2023 just 5% of assets were excluded. These Schedule 1B tabulations now come close to a full look-through classification of investments, but unfortunately the reporting categories, structured to align with regulatory limits, do not distinguish satisfactorily between issuers or kinds of securities.

Key features of the investment distribution include the following:

- Official funds were almost entirely invested in public sector debt instruments in 1983, or loans to public sector entities. By 2013, domestic public sector securities comprised about 28% of official funds' assets, remaining between 28% and 30% of investments in the 2021-2024 period.

- Equity in companies increased from zero in 1983 to just under 12% of official funds' assets in 1993 (mainly originating in privatisation of state industrial enterprises). Since 2013 shares in companies have comprised over 60% of official funds' assets.

- Foreign assets held by official funds reached over 20% in 2013 and over 24% in 2024.

The direct investment of private and official retirement funds in public sector securities is summarised in Table 8, drawing on SARB data, *excluding* funds held by private funds with life insurers. Total assets and investment in public sector securities by the PIC (formerly the Public Investment Commissioners) are also shown as the PIC is the main investor on behalf of official funds. Table 8 shows that public sector securities have declined from 63% of retirement fund assets (excluding insurance policies) to 22-23% in recent years.

The relative decline in public sector securities is apparent in both private retirement fund and official fund holdings and is thus a feature of both the defined benefit and defined contribution environments. It is striking also that this decline in holdings of fixed-income securities has occurred despite the rise in the proportion of pensioners in the membership totals of both private and public funds.[17]

Since 2013, the share of assets in public sector securities has been broadly stable, despite the substantial rise in government debt relative to GDP over this period.

We extend the analysis below to include life insurers and CIS funds, which hold substantial assets on behalf of retirement funds and in the case of life insurers also manage out-of-fund annuity policies on behalf of retirees. The resulting consolidation (ie, after netting out private retirement fund holdings with life insurers and CIS funds, and of life insurers' investments in CIS funds) accounts for over 90% of the total assets of South Africa's non-bank financial institutions.[18]

[17] See Table 2 above.

[18] Table S-50 in the December 2025 issue of the SARB Quarterly Bulletin reports "total assets" of non-bank financial institutions as R17,523 billion at the end of 2024. This is an aggregation in which cross-investments between institutions are not fully netted out. By eliminating the overlap between the PIC and official funds and the holdings of life insurers in CIS funds, we estimate total assets of non-bank financial institutions as R11,350 billion. Our estimates of investments by life insurers in CIS funds are taken from statistics for 2010-2024 published by the Association of Savings and Investment of South Africa (ASISA) (https://www.asisa.org.za/statistics/), extrapolated to earlier years through a simple linear proportional adjustment formula. We assume that double-counting between CIS funds (in "funds of funds", for example) has been eliminated in the SARB tables, as in ASISA's CIS statistics.

Table 8: Retirement fund holdings of domestic public sector securities, 1983-2024

(R billions)	1983	1993	2003	2013	2021	2022	2023	2024	Increase pa 1983-2024
Retirement fund assets excluding funds held with Life Insurers									
Private funds	**15.8**	**88.7**	**285.0**	**962.6**	**1 568.5**	**1 533.8**	**1 767.6**	**1 863.4**	***12.3%***
Of which: public sector securities	7.7	23.3	42.8	120.3	204.7	204.0	214.9	244.2	*8.8%*
% of Total	*48.3%*	*26.3%*	*15.0%*	*12.5%*	*13.1%*	*13.3%*	*12.2%*	*13.1%*	
Official funds: Total assets	**10.2**	**88.8**	**387.0**	**1 505.6**	**2 369.7**	**2 379.8**	**2 519.3**	**2 747.8**	***14.6%***
Of which: public sector securities	8.8	67.5	182.5	424.9	704.5	704.8	705.8	786.3	*11.6%*
% of Total	*86.3%*	*76.1%*	*47.2%*	*28.2%*	*29.7%*	*29.6%*	*28.0%*	*28.6%*	
Memo:									
PIC: Total assets	***11.4***	***72.1***	***358.7***	***1 565.5***	***2 519.4***	***2 557.1***	***2 730.0***	***2 996.8***	***14.5%***
Of which: public sector securities	*11.2*	*60.0*	*185.3*	*493.3*	*797.0*	*823.7*	*837.9*	*943.7*	*11.4%*
% of Total	*97.6%*	*83.1%*	*51.7%*	*31.5%*	*31.6%*	*32.2%*	*30.7%*	*31.5%*	
Total: Retirement funds excluding funds held with Life Insurers									
Total assets	**26.0**	**177.5**	**671.9**	**2 468.3**	**3 938.2**	**3 913.6**	**4 286.9**	**4 611.1**	***13.5%***
Of which: public sector securities	16.5	90.8	225.3	545.1	909.3	908.8	920.7	1 030.5	*10.6%*
% of Total	*63.2%*	*51.2%*	*33.5%*	*22.1%*	*23.1%*	*23.2%*	*21.5%*	*22.3%*	

Source: SARB, Quarterly Bulletin Capital Market accounts.

Note: SARB estimates of asset values differ from FSB and FSCA estimates, in part due to valuation assumptions and calendar vs financial year estimates.

It should be noted that in recent years the business of insurers and retirement funds appears to have broadened to include substantial investments on behalf of business enterprises, including group life schemes, and the foreign sector. Table 9 sets out the trend, drawn from the SARB's national financial account. In 1993, households were recorded as the counterparty to 84% of the net income of insurers and retirement funds; in 2024, businesses accounted for 21% and the foreign sector 19% of the net increase in members' interest in fund reserves. Table 9 also illustrates the marked impact of the COVID recession on the net increase in fund reserves.

Table 9: Net acquisition of members' interest in retirement and insurance funds, 1993-2024

(R billions)	1993	2003	2013	2019	2020	2021	2022	2023	2024
Net increase in members' interest in fund reserves									
Households	43.7	53.8	77.3	151.1	87.8	40.4	91.8	125.1	120.2
Corporate business enterprises	7.6	9.0	24.2	12.3	(2.2)	2.4	26.5	52.0	41.8
Other domestic institutions	-	(0.3)	(4.5)	0.4	0.4	0.9	(1.6)	0.2	0.8
Foreign sector	0.6	0.7	1.6	13.1	20.7	22.7	15.5	54.7	37.1
Net income of insurance and retirement funds									
Total	**51.9**	**63.3**	**98.6**	**176.9**	**106.7**	**66.4**	**132.1**	**231.9**	**199.9**
Households as % of Total	*84.2%*	*85.0%*	*78.4%*	*85.4%*	*82.3%*	*60.9%*	*69.5%*	*53.9%*	*60.1%*

Source: SARB Quarterly Bulletin, National financial account, various years.

The consolidated assets of savings institutions as estimated in Table 10 increased from 47% of GDP in 1983 to 92% in 1993, 102% in 2003 and a remarkable 141% in 2024. CIS funds have grown particularly strongly since the early 2000s, in part because they have managed an increasing share of the assets of retirement funds and life insurers.

Table 10 shows that just under half of the consolidated assets of retirement funds, life insurers and CIS funds were invested in public sector securities in 1983. This share declined to 34% in 1993, 24% in 2003 and around 19-21% in 2013 and 2021-24. In the case of retirement funds, the share of assets (excluding insurance policies and CIS investments) held in public debt instruments declined from over 60% forty years ago to around 25% today. Retirement funds, insurers and CIS funds held around 80% of public sector marketable debt twenty years ago and hold about 44% today (at market value).

Table 10: Retirement funds, Life Insurers and CIS funds - holdings of domestic public sector securities, 1983-2024

(R billions)	1983	1993	2003	2013	2021	2022	2023	2024	Increase pa 1983-2024
Retirement fund assets excluding funds held with Life Insurers and Collective Investment Schemes									
Net assets under management	**26.0**	**175.6**	**644.2**	**2 204.3**	**3 436.2**	**3 432.8**	**3 719.9**	**4 021.0**	***13.1%***
Of which: public sector securities	16.5	90.8	225.3	545.1	909.3	908.8	920.7	1 030.5	*10.6%*
% of Total	*63.4%*	*51.7%*	*35.0%*	*24.7%*	*26.5%*	*26.5%*	*24.8%*	*25.6%*	
Life Insurers (formerly Long-term Insurers) excluding investments in CIS funds									
Net assets under management	**23.0**	**245.9**	**653.2**	**1 436.3**	**1 975.5**	**1 943.3**	**2 079.3**	**2 323.3**	***11.9%***
Of which: public sector securities	8.0	56.1	123.3	212.7	381.5	385.2	418.3	476.7	*10.5%*
% of Total	*34.6%*	*22.8%*	*18.9%*	*14.8%*	*19.3%*	*19.8%*	*20.1%*	*20.5%*	
Memo: Life Insurers pension liability	*13.1*	*135.4*	*348.2*	*1 037.3*	*1 603.2*	*1 548.0*	*1 723.6*	*1 944.7*	*13.0%*
Collective Investment Schemes (formerly Unit Trusts)									
Total assets under management	**1.1**	**19.7**	**227.4**	**1 483.7**	**3 174.7**	**3 224.4**	**3 571.7**	**3 992.3**	***22.1%***
Of which: public sector securities	0.0	3.0	24.2	193.1	482.6	453.8	499.4	590.3	*25.8%*
% of Total	*4.3%*	*15.1%*	*10.6%*	*13.0%*	*15.2%*	*14.1%*	*14.0%*	*14.8%*	
Total: Consolidated assets of Retirement funds, Life Insurers and CIS funds									
Consolidated savings institutions	**50.1**	**441.2**	**1 524.8**	**5 124.4**	**8 586.3**	**8 600.6**	**9 370.9**	**10 336.6**	***13.9%***
as % of GDP	*46.7%*	*91.7%*	*102.3%*	*132.5%*	*138.0%*	*129.2%*	*133.4%*	*140.9%*	
Of which: public sector securities	24.5	149.8	372.8	951.0	1 773.3	1 747.8	1 838.4	2 097.5	*11.5%*
% of Total	*48.8%*	*34.0%*	*24.4%*	*18.6%*	*20.7%*	*20.3%*	*19.6%*	*20.3%*	
Distribution of holdings of public sector securities between Retirement funds, Life Insurers and Collective Investment Schemes									
Retirement funds	*67.3%*	*60.6%*	*60.4%*	*57.3%*	*51.3%*	*52.0%*	*50.1%*	*49.1%*	
Life Insurers	*32.6%*	*37.4%*	*33.1%*	*22.4%*	*21.5%*	*22.0%*	*22.8%*	*22.7%*	
Collective Investment Schemes	*0.2%*	*2.0%*	*6.5%*	*20.3%*	*27.2%*	*26.0%*	*27.2%*	*28.1%*	
Holdings of domestic public sector securities as % of total domestic public sector marketable debt									
Domestic public sector marketable debt	**35.4**	**225.8**	**466.1**	**1 458.3**	**3 822.3**	**3 811.2**	**4 166.8**	**4 753.2**	***12.7%***
Percentage held by:									
Private retirement funds	*21.6%*	*10.3%*	*9.2%*	*8.2%*	*5.4%*	*5.4%*	*5.2%*	*5.1%*	
Official retirement funds	*24.9%*	*29.9%*	*39.1%*	*29.1%*	*18.4%*	*18.5%*	*16.9%*	*16.5%*	
Life Insurers	*22.5%*	*24.8%*	*26.4%*	*14.6%*	*10.0%*	*10.1%*	*10.0%*	*10.0%*	
Collective Investment Schemes	*0.1%*	*1.3%*	*5.2%*	*13.2%*	*12.6%*	*11.9%*	*12.0%*	*12.4%*	
Total	***69.2%***	***66.4%***	***80.0%***	***65.2%***	***46.4%***	***45.9%***	***44.1%***	***44.1%***	

Source: FSB and FSCA reports; SARB Quarterly Bulletin Capital Market accounts data series.

Notes:

1, Assets of retirement funds held by Life Insurers and CIS funds are netted out, as are the investments of Insurers in CIS funds.

2. Assets of retirement funds at market value from 2003; Life Insurers at market value from 1993, CIS funds at market value from 1983. Public sector debt is estimated at market value from 2013 based on the ratio of market to face value of national marketable domestic debt.

This analysis does not provide a complete “look-through” to the direct and indirect holdings of retirement funds in public sector securities. However, a maximum can be calculated. If *all* investments of life insurers in public sector securities are held on behalf of retirement funds, and if CIS funds *only* hold public sector securities against their private retirement fund liabilities, then the total investment of retirement funds in public securities in 2024 would be R2 097 billion, out of total assets of R6 556 billion, or 32.0%. A reasonable approximation is that South African retirement funds hold at most a third of their assets in fixed interest securities (bonds), of which about 90% are domestic public sector securities.

Life insurers, like private retirement funds, have reduced their holdings of public sector securities: from 35% of assets (excluding CIS investments) in 1983 to around 20% in recent years. CIS funds have markedly increased their overall share of funds under management and currently hold 14-15% of assets in public sector securities, somewhat higher than in 1983 and in 2003.

Retirement funds accounted for two-thirds of the consolidated holdings of savings institutions in public sector securities in 1983, whereas life insurers accounted for just under one-third. By 2024, retirement funds accounted for just under half of the combined investment in public sector securities, life insurers accounted for 23% and CIS funds 28%.

Table 10 also indicates that the combined investment of retirement funds, life insurers and CIS funds in public sector securities has declined since 2003 as a proportion of domestic public sector marketable debt. Private retirement funds (excluding indirect investments through life insurers or CIS funds) held 22% of public sector marketable debt in 1983, but just 5.1% in 2024. Official retirement funds held 25% of public debt in 1983, rising to 39% in 2003 and then declining to 16.5% in 2024. Life insurers and CIS funds together held 22.4% of public sector marketable debt in 2024, down from over 30% in 2003.

The growth in total assets held by these savings institutions and the trend in their investments in public sector securities are illustrated in Figures 1 and 2.

Figure 1: Consolidated assets of savings institutions (% of GDP)

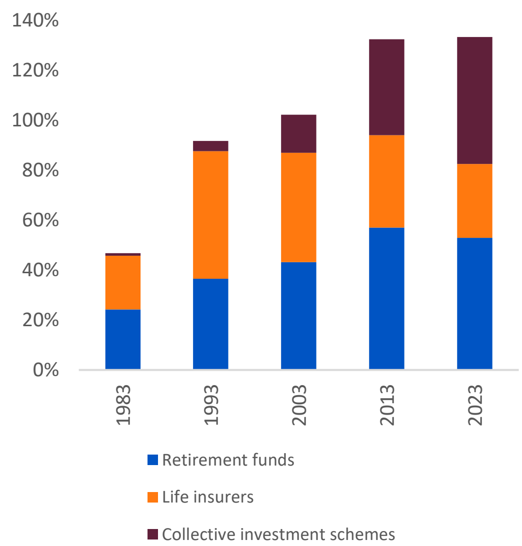
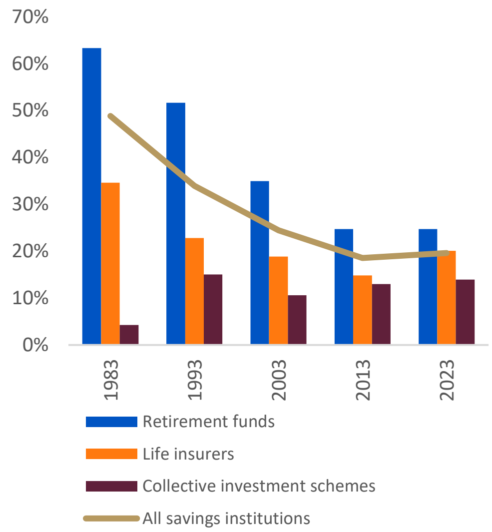


Figure 2: Share of assets held in public debt securities



Source: SARB Quarterly Bulletin data series; ASISA statistics

Figure 3 illustrates the trend in marketable domestic public sector debt since 1980. Figure 4 shows the share of this debt held by domestic savings institutions. Retirement funds, life insurers and CIS funds jointly accounted for just over 69% of domestic public sector marketable debt in 1983, 66% in 1993 and 80% in 2003 before declining to 44% in 2024.

Figure 3: Public sector debt as % of GDP

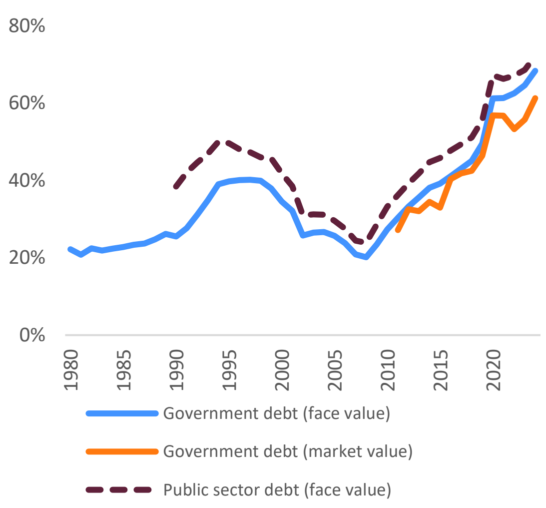
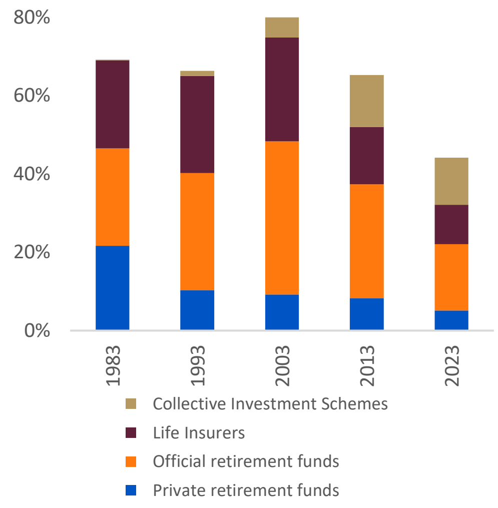


Figure 4: Share of public debt held by savings institution



Source: SARB Quarterly Bulletin

BONDS VERSUS EQUITY

On both maturity matching and risk or volatility grounds, long-term interest-bearing securities, mainly public sector bonds, are widely accepted as suitable investment instrument in pension fund portfolios, though over the long term they may earn lower returns than equity investments.

The OECD's most recent review of asset allocation by pension funds emphasises that there is considerable variation across countries in the distribution of assets and in the balance between bonds and equities. But it notes that there is *"generally a greater preference for bonds…"*.[19] South Africa is identified, along with 14 (out of 38) OECD countries, as unusual in having a greater preponderance of equities over bonds in its retirement fund portfolios.

South Africa is also an outlier in the extent to which pension funds rely on insurance contracts and separate institutional (CIS) investment funds. In principle this could assist in pooling investment risks and smoothing returns. But in practice both insurers and CIS funds offer a very wide range of investment vehicles or options in an actively traded market, mitigating against the potential scope for risk-pooling across the private retirement fund industry. Indeed, it seems clear that the large number of sub-optimally

[19] Organisation for Economic Cooperation and Development (OECD), *Pensions at a Glance*, 2025, p. 236.

sized funds, the extent of sub-contracting of investment management and administration and the extent of zero-sum trade between fund managers contribute to unnecessarily high costs and lower investment returns than might be achieved in a less diverse industry structure. South Africa's equity and bond markets are characterised by comparatively high rates of turnover,[20] and although bond trades are mainly repo market transactions in the monetary sector, this might also reflect buying and selling between portfolio holdings of savings institutions that contribute collectively to costs and not investment returns.

Our review of the historical record has shown that there has been a marked shift in the investment portfolios of both private and official funds and of life insurers away from public sector securities. Even in the past decade, during which the financing requirements of government and public sector entities have remained elevated, and the private corporate sector has been a net source of savings, South Africa's savings institutions have continued to favour equities over bonds.

And yet the average return on investments by both private and official pension funds over the decade to 2023/24 did not exceed the available returns on long-term public sector securities.[21] Self-administered private funds achieved an average return on investments over the 2014-2023 period of 8.8%. For underwritten funds, the FSCA provides estimates only from 2018: the average return from 2018 to 2023 was 5.6%.[22] The GEPF's 2024 annual report indicates that its portfolio return over the previous 10-year period was 7.2%.[23]

Taking a longer-term view, both equities and diversification to include foreign assets might contribute to higher average returns than would be achieved in a bond portfolio. But in the circumstances of the South African economy over the past decade, this looks rather like a many-person prisoners' dilemma: borrowing costs not just for the fiscus but also for the wider economy have been higher than they would otherwise have been because the *collective* benefits of allocating a greater share of available long-term savings to meeting public sector borrowing requirements have been foregone.

Since 2024, equity markets have recovered strongly, benefiting savings funds. Inflation and interest rates have declined while the exchange rate has strengthened. In several respects this is an improved macro-financial outlook. But lower inflation means that the real resource cost of existing fixed-interest debt liabilities has increased, and the public sector borrowing requirement will remain elevated for several years. Banks and foreign investors are the main winners in the bond market transition to lower inflation. On *macro-financial* stability grounds, for the period ahead, higher levels of investment by domestic savings institutions in public sector securities will be needed.

On prudential grounds also, there is a compelling case to be made for greater investment in bonds by retirement funds. Compulsory annuitisation will lead, over time, to more pensions being bought, and possibly a shift towards conventional life products rather

[20] The National Treasury's 2024/25 *Debt Management Report* indicates average bond market turnover of R45 billion in 2024, or about 10 times total bond issuance.
[21] Over the 2014-2024 period, the yield on RSA 10-15 year bonds averaged 9.7%.
[22] FSCA, *Retirement Funds Statistical Reports, 2022 and 2023;* Registrar of Pension Funds *Annual Report 2017.*
[23] GEPF *Annual Report 2023/24*, p. 65.

than living annuities. The industry has been through a long cycle of under-investment in fixed interest securities – the years ahead should see a rebalancing towards bonds.

REGULATION 28

South Africa's Pensions Fund Act, through Regulation 28, sets various asset class limits to the investments of retirement funds. Overall limits and narrower individual issuer limits apply to various categories of debt instruments – equities, immovable property, investments in the business of participating employers, hedge funds and private equity funds, for example – broadly intended to encourage diversification and guard against imprudent investment exposures.

Somewhat anomalously, in the DC environment, once accumulated funds are taken "out-of-fund" into a living annuity product, they are no longer restricted by Regulation 28, though minimum and maximum withdrawal rates apply.

In 2022, a new "infrastructure" category was introduced with an overall investment limit of 45% and of 25% per entity or issuer. This followed lengthy engagement between the authorities and the retirement funding industry around the need to encourage public infrastructure investment *other than* through government debt issues or guaranteed loans. In practice, the change has had little effect. Trustees of retirement funds cannot be expected to exercise fiduciary oversight directly over infrastructure projects: the introduction of this "category" does not mitigate the need for instrumental assurances associated with other categories of assets.

To this general concern that infrastructure investment cannot be expected to be directly boosted by fund managers, account has to be taken of the cost-raising effect of shifts to illiquid and riskier investment classes. Funds will expect higher returns, perhaps 1-1.5% higher or more, in these sub-portfolios.

Regulation 28 also extends the foreign investment limit for institutional investors overseen by the SA Reserve Bank to retirement funds. In 2018, the foreign exposure limits of 25% and a further 5% for investments in Africa were raised to 30% for foreign portfolio investments and a further 10% for investments in Africa. With effect from January 2023, the overall foreign exposure limit has been raised to 45%.

These limits apply on a "look-through" basis to retirement funds that hold assets in CIS funds or life insurers, though compliance can either be certified with reference to a fund's consolidated asset holdings or through issuers' certificates.

It is important to note that the 45% foreign exposure limit is not a prudential limit associated directly with the protection of retirement savings, but a *macro-financial risk* limit that is applicable to pension funds and to life insurers, CIS funds and other discretionary investment managers. It applies to regulated institutional investors or fund managers, whether managing tax-privileged retirement savings or discretionary after-tax savings, though not to the operating capital of companies with offshore business activities.

For retirement funds whose members are expected to have rand-denominated future income requirements, a 45% foreign currency exposure might well be excessive. Present indications are that the trustees of many funds are mindful of this concern, and the 2023 regulatory change does not appear to have led to large portfolio adjustments.

In the interests of promoting *domestic* investment, there have been calls, for example in the recent National Planning Commission financial architecture report, for this foreign investment limit to be reduced, perhaps specifically for retirement funds rather than other fund managers.

But broader questions should also be raised. It is well understood that compliance difficulties with foreign exposure and other investment limits can arise when exchange rates move sharply, or when market-based asset valuations change. It is also clear that there are deep conceptual and accounting difficulties with *measuring* foreign exposure for regulatory purposes – how should secondary listings of foreign corporations be classified, how should companies with multi-jurisdiction business interests be treated, how should investments wrapped in foreign currency derivative products be dealt with, do rand-denominated loans to neighbouring countries count as foreign assets? Though the SARB applies considerable experience and expertise to these regulatory responsibilities, it is hard to avoid the impression that once the rules are written ways of bypassing them will emerge.

To revert to lower foreign exposure limits would cause difficulties for at least some funds and may lead to counterproductive recharacterisation of assets. Investment limits are blunt instruments, only loosely related to their underlying policy intentions. A more constructive approach may be to seek agreement on investment guidelines to accompany the existing regulatory framework – guidelines that acknowledge both the tax-privileged status of retirement funds and the macro-financial requirements of the domestic economy – recognising that the rules are in any event no substitute for the fiduciary responsibilities of trustees.

SOCIAL SECURITY REFORM

It is more than twenty years since the Taylor Committee set out proposals for a "comprehensive social security" system. There has been progress in several areas – extension of the child support grant, adjustments to means test thresholds, introduction of the social relief of distress grant, alignment of the regulatory and tax framework for pension and provident funds, for example. But the central reform objective remains unfulfilled. Proposals for a contributory savings and death/disability plan financed through a payroll levy and governed by statute have been under discussion for many years but are not yet agreed.

Over time, as living standards improve and life expectancy increases, there is a widening gap between income requirements, particularly in urban areas, and the non-contributory old age pension. Though broader private retirement fund coverage can assist in narrowing this gap, a standard tax-financed social insurance arrangement offers potential for a more cost-effective and administratively efficient solution.

But a rational balance must be found between existing retirement funding and insurance arrangements, and a statutory option. There is no obvious need, for example, for a social security supplement to the present public service pension and insurance benefits, except for temporary or contract workers who are excluded from the GEPF. For private sector employees who are already members of well-managed pension and group life plans, a further tax to finance a statutory benefit seems unnecessary. For the savings and investment system, disruption of the existing financial intermediation architecture would be both costly and risky.

This is not an argument for inaction. At least half of South Africa's employed workforce are not included in contributory savings arrangements, and many who are do not save enough, or for long enough, to yield an assured retirement income. There are also evident shortcomings in the existing retirement funding institutional arrangements: unclaimed benefits portfolios are large, administration and investment costs are too high for smaller funds serving lower-income workers,[24] and for the industry as a whole, asset management is to some extent a zero-sum game.

If progress is to be made towards improved social insurance without undue disruption of existing arrangements, more detailed evidence is needed on the extent and effectiveness of existing coverage, on the circumstances of those in more vulnerable or irregular earnings environments and on the gap between the present non-contributory grant system and coverage in the formal contributory savings and insurance system. Account must also be taken of the existing old-age grant means-test thresholds – a mandatory savings plan that has the effect of reducing access to existing income entitlements is clearly not going to be regarded with favour.

A helpful point of departure is that SARS data (Table 1) confirms that a majority of those employed with earnings above the tax threshold are members of retirement funds. But this still leaves a large proportion of the workforce uncovered – about half of those who report income to SARS fall below the tax threshold. We also know that withdrawal rates are high and that even amongst higher-income earners preservation of savings to retirement has been poor. A mandatory savings and risk benefit plan has the potential to improve income security and reduce household vulnerability, but it seems clear that it should be targeted at those who are not currently covered, that cost-efficient and reliable administrative arrangements are critical to its successful implementation, and that it should supplement rather than replace the existing old age grant.

The UIF levy is currently 1% of earnings paid by employers and 1% by employees up to an earnings cap of R212 544 annually. It excludes public service employees. It provides a straightforward potential revenue source for a broader pension-funding system, but an increase in the rate would need to be phased in over time and accompanied by a subsidy targeted at low-wage earners.

For contributing retirement fund members and the financial institutions who serve them, clarity is needed on whether a statutory social insurance plan will substitute or complement existing arrangements. In principle, if occupational or private funding arrangements meet the basic retirement funding and income protection standards that a statutory system would offer, then it can be introduced as a default or alternative rather

[24] Neryvia Pillay and Johannes Fedderke, *Characteristics of the South African retirement fund industry,* SA Reserve Bank Working Paper Series WP/22/17 (December 2022) provide evidence of "strong" economies of scale and conclude that many funds operate below the optimal fund size. Their study is limited to administration costs reported to the FSCA, and thus exclude costs incurred through insurance contracts and outsourced investment management.

than a replacement plan. But there is considerable complexity in determining these standards, for which deeper analysis is needed.

STATISTICS AND FINANCIAL ANALYSIS

We have drawn attention in this report to several shortcomings in the available statistics on retirement funds and the broader non-bank financial sector:

- Inconsistent membership data, duplicate counts and inadequate information on dormant and unclaimed benefit members
- Absence of "look-through" reporting on administration and investments outsourced to life insurers and CIS funds
- No reporting on "out-of-fund" annuity accounts
- Inconsistency between FSCA and SARB statistics and lags or missing years in the FSCA reports
- Difficulties in reconciling the official capital market statistics, financial flow of funds accounts and retirement fund statistics
- Double-counting of assets in the absence of "netting out" of cross-holdings between institutions in the national capital accounts.

For more in-depth analysis, further issues arise.

- In the absence of demographic and descriptive statistics accompanying the consolidated financial accounts, it is not possible to construct a distributional analysis of contributions, fund accumulations and benefits.
- Although the FSCA publishes aggregated estimates of administration costs of private retirement funds, these exclude the administration and investment costs incurred through insurers and CIS funds.
- Published statistics do not allow any "flow-through" analysis of contributions to benefits to be undertaken, and so the efficiency of the industry (and of its supporting tax measures) in contributing to lifetime income smoothing cannot be assessed.
- Although death and disability insurance ("group life") often accompanies retirement savings arrangements, the official statistics do not cover these products.

Though the layout of the FSCA *Retirement Fund Statistics* reports is an improvement on the former FSB *Registrar of Pension Funds* reports, and content on returns and administrative costs has been added, the format of the financial statistics has been largely unchanged for over fifty years. As the official review, however, of how regulated savings products finance incomes in retirement for their contributors, these reports are woefully inadequate. The classification of funds is outdated; the reporting is incomplete and any links there may be to supervisory functions appear to be perfunctory.

A possible way forward towards better statistics and analysis might be to constitute a working group of the Treasury, the FSCA, the SARB, SARS and Statistics SA, with expertise drawn from the savings and investment industry, and a broad mandate to develop improved and integrated reporting arrangements and to contribute to deeper analysis and policy advice.

This would be useful as an approach to improve understanding of the retirement fund industry and non-bank financial institutions. It would also be a constructive complement to further work on the policy and regulatory issues that underpin lifetime income security, financial resilience and efficient intermediation between saving and investment.

CONCLUDING NOTE

Whereas the total assets overseen by South Africa's formal savings institutions have increased substantially as a share of GDP since the mid-2000s, the share of marketable domestic public debt held by retirement funds, life insurers and CIS funds has declined.

The investments of official (statutory) funds (mainly represented by the GEPF today) have increased from around 25% of total retirement fund assets thirty years ago to over 40% today, and over 20% of the *combined* assets of retirement funds, life insurers and CIS funds. Yet their holdings of domestic public sector securities have fallen from 30% of marketable public sector debt in 1993 to just 16.5% in 2024.

Phasing out of prescribed assets, the pursuit of higher returns in the equity market, the impact on investment decisions of the 1996-2007 retirement fund tax on interest and rental income, lifting of regulatory restrictions on foreign investment, and risk-perceptions associated with local government and parastatal securities are amongst the factors that might lie behind these trends. South African government debt has also attracted offsetting interest from foreign investors, and in recent years banks have increased their holdings of government debt, arguably in part in response to Basel prudential standards following the 2009 global financial crisis.

We do not have official estimates of the breakdown between the pensioner liability and active member liability of private funds. For the GEPF, actuarial valuations place the pensioner and deferred pensioner liability at about one-third of the total.[25] On reasonable prudential assumptions, fixed-interest securities should be held against the greater part of the pensioner liability. Though there is room for divergent views, it is at least plausible to conclude that the overall investment pattern of both private and official pension funds, in recent years, has under-weighted bonds and over-weighted equities and foreign investments.

[25] Statutory valuation as at 31 March 2021. GEPF Annual Report 2023/24, p. 100.

Table 11: Net purchases of government debt securities and treasury bills, 2017-2024

R billion	2017	2018	2019	2020	2021	2022	2023	2024	Total 2017-24
Foreign sector	82.4%	12.8%	33.3%	-15.1%	-13.2%	49.4%	-6.0%	23.3%	15.3%
SA Reserve Bank	-8.0%	-0.2%	0.0%	6.0%	0.3%	-1.1%	-2.5%	0.7%	0.6%
Banks	24.3%	27.2%	20.2%	33.4%	36.3%	48.1%	54.6%	42.8%	34.6%
Public Investment Corporation	5.4%	18.2%	15.7%	6.0%	16.8%	19.9%	16.1%	14.7%	13.2%
Insurers & Retirement Funds	3.6%	-0.7%	9.1%	32.8%	30.2%	6.9%	20.5%	7.1%	16.3%
Other financial institutions	-11.2%	40.5%	14.1%	42.1%	26.9%	-19.0%	8.6%	14.7%	19.3%
Corporate enterprises & Hhlds	3.5%	2.1%	7.6%	-5.3%	2.7%	-4.2%	8.7%	-3.3%	0.8%
Net issuance of govt bonds & bills	**193.1**	**223.6**	**425.0**	**574.4**	**284.5**	**212.8**	**211.3**	**339.2**	**2 463.7**

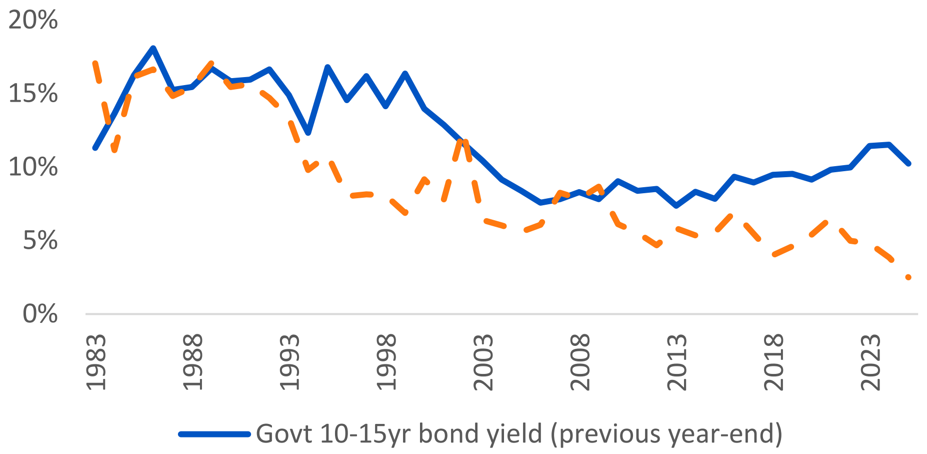
Source: SARB Quarterly Bulletin, National Financial Account: Flow of Funds. Various years.

Note: Issuance by central government of short- and long-term bonds, non-marketable debt and treasury bills, per calendar year.

Drawing on the financial flow accounts complied by the SARB, Table 11 illustrates the relative contributions of the foreign sector, financial intermediaries and other investors to net financing of the South African central government over the past eight years. Foreign purchases of South African government securities have varied markedly, from over 80% of issuance in 2017 to a net outflow of 15% of the (unusually large) 2020 issuance. The PIC, on behalf of the GEPF, has purchased 13% of government debt issues over the past eight years. Private retirement funds and insurers have purchased 16%. In recent years, domestic banks have dominated the government debt market, accounting for 48% of debt issuance in 2022, 55% in 2023 and 43% in 2024.

During the past decade of comparatively low investment by domestic savings institutions in government securities, long-term interest rates have increased while inflation has declined. The recent *real* cost of government debt, illustrated in Figure 5 by the widening gap since 2017 between long-term bond yields and GDP inflation, is of particular concern for South Africa's fiscal sustainability. On these estimates, the real long-term bond yield averaged 2.6% between 2010 and 2017. Between 2018 and 2024 it averaged 5%, and between 2022 and 2025 it increased from 4.8% to 7.5%.[26] Over this four-year period, gross issuance of long-term debt amounted to R1.3 trillion, adding about R150 billion a year to debt interest costs.

Figure 5: RSA long-term bond yields and GDP inflation, 1983-2025



Source: SARB Quarterly Bulletin data series.

[26] Though interest rates have declined since 2024, expected inflation is also lower, and so the real cost of government debt remains elevated.

Between April 2025 and February 2026, the 10-year RSA bond yield has declined from 11.0% to 7.9%, driven in part by strong foreign inflows and market adjustments to lower inflation expectations. Much of the benefit of the resulting rise in the market value of bond holdings will have gone to banks and foreign investors, rather than long-term savings intermediaries.

While there might be scope for attracting greater demand by domestic savings institutions for government debt issues through shifts in the mix of borrowing instruments – larger issues of inflation-linked bonds or securities linked to infrastructure projects or climate change investments, for example – the overall fiscal position at present is that public debt is uncomfortably high and economic growth is low. The cost of government debt is a primary concern in fiscal policy. For the economy more broadly, greater investment in domestic industry and infrastructure is imperative. For those who manage investments in South Africa's savings institutions, uncertainty about the economic and fiscal outlook and limited domestic investment opportunities appear to have driven greater externalisation of funds over the past decade or more.

South Africa's retirement funds play a very large role in the economy, relative to national income, investment and the financing of public debt. A deeper understanding of the industry's contribution to households' lifetime income-smoothing and financing of investment would require attention to several aspects not covered here – the tax treatment of contributions and funds, returns on investment and the impact of regulatory changes, amongst others. Improvements in the collection and compilation of administrative data on retirement funds, their membership and investment trends, and more timely publication of statistics, would assist in taking this inquiry forward.

This review shows that although the intermediation role of South Africa's formal savings institutions has increased markedly relative to GDP over the past forty years, their contribution to meeting domestic public sector financing needs has declined. Though their role in financing private sector capital formation should not be downplayed, if growth and broad-based development are to be boosted over the years ahead there will need to be a rise in the share of contractual savings allocated to public investment.

APPENDIX: SOUTH AFRICA'S SECTORAL FINANCIAL FLOWS, 2015-2024

	2015				2016			
R billion	**Gross saving**	**Net capital transfers**	**Gross capital formation**	**Net lending (+) / Net borrowing**	**Gross saving**	**Net capital transfers**	**Gross capital formation**	**Net lending (+) / Net borrowing**
Foreign sector	178.1	-0.4		177.7	121.2	-0.2		121.0
Financial intermediaries								
Monetary institutions (SARB & Banks)	56.4		9.3	47.1	71.2		12.3	58.9
Non-bank financial intermediaries	67.8		2.4	65.4	49.2	3.8	15.9	37.1
General government	13.7	-38.5	144.3	-169.1	26.7	-36.7	143.3	-153.3
Non-financial business enterprises								
Public	42.4	18.0	165.4	-105.0	50.6	8.0	163.5	-104.9
Private	437.9	2.6	420.0	20.5	464.6	5.9	415.7	54.8
Households	42.5	18.2	97.1	-36.4	58.5	19.2	91.2	-13.5
Total	**838.8**		**838.5**		**842.0**		**841.9**	
Domestic economy	***660.7***	***0.4***	***838.5***	***-177.7***	***720.8***	***0.2***	***841.9***	***-121.0***
% of GDP	*14.9%*		*19.0%*	*-4.0%*	*15.1%*		*17.7%*	*-2.5%*

Source: C Monyela and S Madonsela, Note on the flow of funds in South Africa's national financial account for the year 2016. SARB Quarterly Bulletin, June 2017. Revised estimate for 2016: C Monyela and S Madonsela, Note on the flow of funds in South Africa's national financial account for the year 2017.

	2017				2018			
R billion	**Gross saving**	**Net capital transfers**	**Gross capital formation**	**Net lending (+) / Net borrowing**	**Gross saving**	**Net capital transfers**	**Gross capital formation**	**Net lending (+) / Net borrowing**
Foreign sector	118.2	-0.2		118.0	173.0	-0.2		172.8
Financial intermediaries								
Monetary institutions (SARB & Banks)	52.3		15.0	37.3	43.6		18.0	25.6
Non-bank financial intermediaries	47.5		4.6	42.9	73.2		5.3	67.9
General government	7.2	-37.3	147.1	-177.2	-1.1	-17.1	145.8	-164.0
Non-financial business enterprises								
Public	55.3	17.8	146.5	-73.4	56.9		127.4	-70.5
Private	522.1	2.0	464.5	59.6	461.7	2.2	479.9	-16.0
Households	72.6	17.7	97.5	-7.2	67.1	15.1	98.0	-15.8
Total	**875.2**		**875.2**		**874.4**		**874.4**	
Domestic economy	***757.0***	***0.2***	***875.2***	***-118.0***	***701.4***	***0.2***	***874.4***	***-172.8***
% of GDP	*14.9%*		*17.2%*	*-2.3%*	*13.1%*		*16.3%*	*-3.2%*

Source: S Madonsela and B Khoza, Note on the flow of funds in South Africa's national financial account for the year 2018. SARB Quarterly Bulletin, June 2019. Revised estimate for 2018: B Khoza and S Madonsela, Note on the flow of funds in South Africa's national financial account for the year 2019.

	2019				2020			
R billion	**Gross saving**	**Net capital transfers**	**Gross capital formation**	**Net lending (+) / Net borrowing**	**Gross saving**	**Net capital transfers**	**Gross capital formation**	**Net lending (+) / Net borrowing**
Foreign sector	153.2	-0.2		152.9	-109.6	-0.2		-109.8
Financial intermediaries								
Monetary institutions (SARB & Banks)	979.1		0.0	979.1	775.8		0.0	775.8
Non-bank financial intermediaries	-848.8		41.9	-890.7	-615.3		17.8	-633.1
General government	2.4	-114.5	137.2	-249.3	-388.6	-96.9	144.4	-629.9
Non-financial business enterprises								
Public	53.6	75.7	135.2	-5.9	27.0	78.4	78.1	27.3
Private	491.2	20.8	481.5	30.5	849.4	3.0	338.2	514.3
Households	62.4	18.2	97.2	-16.6	150.3	15.7	110.6	55.4
Total	**893.1**		**893.0**		**689.0**		**689.1**	
Domestic economy	***739.9***	***0.2***	***893.0***	***-152.9***	***798.6***	***0.2***	***689.1***	***109.8***
% of GDP	*13.2%*		*15.9%*	*-2.7%*	*14.4%*		*12.4%*	*2.0%*

Source: S Madonsela and B Khoza, Note on the flow of funds in South Africa's national financial account for the year 2020. SARB Quarterly Bulletin, June 2021. Revised estimate for 2020: B Khoza and S Madonsela, Note on the flow of funds in South Africa's national financial account for the year 2021.

	2021				2022			
R billion	**Gross saving**	**Net capital transfers**	**Gross capital formation**	**Net lending (+) / Net borrowing**	**Gross saving**	**Net capital transfers**	**Gross capital formation**	**Net lending (+) / Net borrowing**
Foreign sector	-226.7	-0.2		-226.9	33.3	28.9		62.2
Financial intermediaries								
Monetary institutions (SARB & Banks)	72.4		14.8	57.6	59.8		13.5	46.3
Non-bank financial intermediaries	112.3		2.1	110.2	118.0	22.0	6.7	133.3
General government	-117.8	-126.7	150.2	-394.7	-104.4	-69.1	162.2	-335.7
Non-financial business enterprises								
Public	-4.9	114.9	83.5	26.5	46.1	36.5	80.2	2.4
Private	805.8	0.2	412.0	394.0	717.5	-10.3	597.0	110.2
Households	168.8	11.7	147.4	33.1	155.7	-8.1	166.4	-18.8
Total	**809.9**		**810.0**		**1 026.0**		**1 026.0**	
Domestic economy	***1 036.6***	***0.2***	***810.0***	***226.9***	***992.7***	***-28.9***	***1 026.0***	***-62.2***
% of GDP	*16.7%*		*13.0%*	*3.6%*	*14.9%*		*15.4%*	*-0.9%*

Source: S Madonsela and B Khoza, Note on the flow of funds in South Africa's national financial account for the year 2022. SARB Quarterly Bulletin, June 2023. Revised estimate for 2022: B Khoza and S Madonsela, Note on the flow of funds in South Africa's national financial account for the year 2023.

	2023				2024			
R billion	**Gross saving**	**Net capital transfers**	**Gross capital formation**	**Net lending (+) / Net borrowing**	**Gross saving**	**Net capital transfers**	**Gross capital formation**	**Net lending (+) / Net borrowing**
Foreign sector	76.4	-0.2		76.2	48.0	-0.2		47.7
Financial intermediaries								
Monetary institutions (SARB & Banks)	94.9	5.5	22.9	77.5	99.6		28.2	71.4
Non-bank financial intermediaries	76.4		3.0	73.4	66.4		3.4	63.0
General government	-191.1	-58.8	177.8	-427.7	-178.7	-13.9	183.9	-376.5
Non-financial business enterprises								
Public	41.7	43.2	120.2	-35.3	55.9	1.7	112.4	-54.8
Private	862.6	0.1	597.0	265.6	826.4	0.2	555.7	270.9
Households	122.3	10.3	162.3	-29.8	116.9	12.2	150.7	-21.7
Total	**1 083.2**		**1 083.2**		**1 034.5**		**1 034.3**	
Domestic economy	***1 006.8***	***0.2***	***1 083.2***	***-76.2***	***986.5***	***0.2***	***1 034.3***	***-47.7***
% of GDP	*14.3%*		*15.4%*	*-1.1%*	*13.4%*		*14.1%*	*-0.7%*

Source: S Madonsela and B Khoza, Note on the flow of funds in South Africa' national financial account for the year 2024. SARB Quarterly Bulletin, June 2025.

Part 2: The Government Employees' Pension Fund

INTRODUCTION

The focus of Part 2 of this report is the Government Employees Pension Fund (GEPF), formed in 1996 as the consolidated fund for public service employees. In the 1980s, official funds represented less than a quarter of retirement fund investments. Today the GEPF controls over 40% of the assets of all retirement funds, and 27% of the consolidated assets of retirement funds, life insurers and CIS funds.

During the 1980s, oversight of South Africa's official funds was transferred from the former Department of National Health and Population Development to the Department of Finance. In these years, their investments were almost entirely held in government securities. The GEPF now reports to its own board of trustees which oversees, through the PIC, a diversified portfolio of investments. Despite its extraordinary growth in assets, the GEPF today has a diminished role in meeting the funding needs of government and state-owned companies in comparison with earlier decades.

Formed in the 1990s through amalgamation of the pension funds for public service employees of the South African and homeland governments, the GEPF now accounts for about 17% of the active (contributing) membership of all retirement funds, and approximately 40% of the total assets of public and private retirement funds, equivalent to 33% of GDP. The GEPF balance sheet now amounts to around 20% of the *consolidated* assets of all retirement funds, CIS funds and life insurers, up from about 12.5% in 1993.

Forty years ago, the financial position of public sector pension funds was very different.

GOVERNMENT PENSION FUNDS IN THE 1980s – UNDER-FUNDED AND OVER-GENEROUS

In 1987, prominent actuary and honorary president of Sanlam Dr AD Wassenaar published *En route to Fairyland*, directed at the financial mismanagement of government pension funds. This was followed by *Squandered Assets* in 1989, a broader critique of the state of the economy and public policy.[27]

Wassenaar drew attention to a 1976 directive which had the effect of cancelling the requirement that government pension funds should be valued actuarially. During the decade that followed, the financial position of the then Government Service Pension Fund and other official funds was "in practice shrouded in secrecy".[28] Financial statements of income and expenditure and of assets and liabilities were prepared annually, but they did not fully take account of either the structure of benefits or the prevailing environment of double-digit inflation and rising salary and pension levels.

[27] Wassenaar, AD, *En Route to Fairyland.* Tafelberg Publishers, 1987; *Squandered Assets.* Tafelberg Publishers, 1989.
[28] Wassenaar, AD, *Squandered Assets*, 1989 p. 84.

Government pensions, at this time, fell under the Minister of National Health and Population Development. When an actuarial valuation was called for, in 1984/85, its findings were initially not released. When the report was disclosed in September 1987, it indicated that, as of March 1985, the system had accumulated a R7.6 billion deficit. A further R9.4 billion shortfall was identified in respect of future inflation-related pension adjustments. In effect, the valuation implied, government pension funds held assets equivalent to perhaps 40%, at most, of their actuarially determined liabilities.

One reason for this would have been that yields on government bonds over much of the preceding period were little more than, and sometimes below, the annual rate of consumer inflation and associated adjustments in salaries and pensions.

But the main focus of Wassenaar's analysis was – in his words – the "outrageous provision, which resulted in a lavish squandering of taxpayers' funds…under which civil servants could buy and acquire fictitious pensionable service". [29]

In brief, members of government pension funds could take advantage of a pension buy-back formula to cover years in which they were not employed or accumulating pension benefits. This resulted in increased benefits substantially in excess of the buy-back cost. Wassenaar showed that civil servants who took advantage of this provision could receive, on retirement, "free gifts" from the taxpayer equivalent to four or five years of salary. This provision was still in place in 1985, and so, in Wassenaar's analysis, the officially estimated actuarial deficit of R17 billion referred to above was an under-estimate. In his view, the actuarial shortfall of the Government Service Pension Fund and the Transport Services Funds would have been about R30 billion by March 1989.

Wassenaar also directed his ire at the last working day provision in government pension funds, which meant that pension benefits could be artificially enhanced by administrative adjustments to salary level or seniority shortly before retirement. This provision has since been amended to a final salary determination based on the last two years of service.

The pension arrangements for ministers and members of parliament in the 1980s were even more egregious. Amendments to the relevant legislation made in 1979 and in 1984 had the effect of reducing contribution rates while substantially increasing benefits. In just twelve years of service, a member of parliament could accrue a pension benefit equal to 100% of salary, inclusive of tax-free allowances. These arrangements were with some variation extended to members of the various ethnic and regional legislatures. Wassenaar's analysis indicates that contribution rates to meet these pension benefits would have had to be in the region of 40%, whereas the actual contribution rates paid by ministers and ordinary members were 3.3% and 7% respectively.[30]

In 1987, over-generous arrangements for political office-bearers at the national level were extended to municipalities. [31] The *Pension Benefits for Councillors of Local Authorities Act* authorised municipalities to establish pension schemes subject to administrative conditions but without statutory obligations to ensure their actuarial solvency. The law allowed for acquisition of pension rights in respect of past service, and proposed benefits defined in relation to years of service and final salary, while ignoring

[29] Wassenaar, *Squandered Assets,* 1989, p. 84.
[30] Wassenaar, *Squandered Assets,* 1989, chapter 9.
[31] Wassenaar, *Squandered Assets,* 1989, chapter 10.

the fact that councillors were mainly part-time office-bearers. Confusion and complexity in the local government retirement funding environment have continued into the 2000s.

CONSOLIDATION IN THE 1990s

In the lead-up to the new administration, the Department of Finance played an active role in placing government pension funds on a sound financial footing and preparing for their consolidation in a unitary state.

The costly buy-back formula was revised in 1988, and around this time responsibility for the government funds shifted to the Department of Finance. Rules were strengthened to govern reimbursement of the fund for additional pension benefits granted by the employer, such as early retirement offers. A supplementary pension contribution was added to 13th cheque salary payments to assist in building up pension reserves. The pension funding deficit was also narrowed to some extent, over time, by limiting annual pension increases to a proportion of consumer price inflation – later codified in the GEP Law as a minimum increase of 75% of the average increase in the consumer price index over the previous 12 months.

Perhaps the most important factor in improving the financial position of government pension funds in the 1990s was the indirect benefit of the reduction in average inflation from around 15% between 1982 and 1992 to below 6% by the end of the 1990s. The accompanying reduction in interest rates meant that pension funds' assets (accumulated in earlier years) gained value, while the actuarial provision for future pension increases declined.

The Department of Finance took the lead in consolidating the various pension funds of the separate administrations that were merged under the interim constitution, and standardising benefits and contribution rates. In 1996, ten separate pension funds, including the former Government Service Pension Fund, the Temporary Employees Pension Fund and the pension funds of the former Ciskei, Transkei, Bophuthatswana and Venda administrations, were amalgamated to form the GEPF. The administration of this consolidated pension fund, and of various pension and other benefit schemes directly funded on budget (post-retirement medical benefits, injury on duty awards, special pensions to non-statutory force veterans, amongst others) was the responsibility of a *Pensions Administration* chief directorate in the Department of Finance. Investment of funds was managed by the *Public Investment Commissioners*, similarly supported by a departmental chief directorate.

Although the official pension funds were not (and are still not) subject to the ambit of the Pension Funds Act and associated regulatory oversight, the Finance Department's approach to its pension fund responsibilities was shaped in part by its broader responsibilities for the retirement fund industry. The Mouton Committee was formed in the early 1990s to develop proposals for a national retirement system, leading to improved standards of governance and fiduciary responsibility as well as greater awareness within government of the wider financial and capital-market implications of both government and private sector retirement funds. Following the Mouton Committee's work and the subsequent Katz Commission on taxation, steps were taken, for example, to phase in the same tax treatment of government pension benefits as applied to private retirement funds. [32]

On 31 March 1994, the official pension funds held assets of R99.7 billion, about 30% of the total assets of retirements funds, 19% of the assets of retirement funds, life insurers and CIS funds and about 25% of GDP. The main government service pension fund accounted for about 80% of official pension funds. Its assets were still managed by the Public Investment Commissioners and were still entirely invested in government or state enterprise securities. In 1995, the mandate of the PIC was extended to include investment in equities and property.

During the 1990s, there were steady improvements in the funding level of the government pension funds. The first actuarial valuation of the newly consolidated GEPF, in 1996, reported a funding level of 72.3% of liabilities. By 2000, the estimated funding level was 96.1%, and the GEPF held approximately R200 billion in funds and reserves.

As of 31 March 2006, the funding level was estimated at 101.7% and the GEFP held accumulated funds and reserves of R546 billion, out of a total of R640 billion in assets of all official funds. The GEPF accounted for 36% of all retirement fund assets and 20% of non-banking financial institution assets, equivalent to 34% of GDP.

INSTITUTIONAL REFORM – SEPARATION OF GEPF ADMINISTRATION FROM THE NATIONAL TREASURY

Perhaps indicative of concerns about the security of pension benefits, there was some discussion in the outgoing administration in the early 1990s of options for separating government pension funds from political control. The outcome was a Government Employees Pension Law passed in 1996 which was in part a product of negotiations between government and public sector unions. It provided for the establishment of the GEPF as a juristic person and for it to succeed the Government Service Pension Fund and to take over the membership, assets and liabilities of most other government pension funds, including the funds of former homeland authorities. It vested control of the GEPF in a board of trustees comprising representatives of government as employer, employees and pensioners. It codified benefits in detail and envisaged a fully funded scheme subject to regular actuarial valuation. While the trustees have overall responsibility for the GEPF, determination of its investment policy or mandate is shared with the Minister of Finance.

Despite the proclamation of the Government Employees Pension Law in 1996, the Minister of Finance continued to exercise trusteeship responsibility for the GEPF until the appointment of the first board of trustees in 2005. The pensions administration component of the then Department of Finance undertook the administrative work of consolidating existing funds into the new consolidated fund, and investment of funds continued to be the responsibility of the Public Investment Commissioners chaired by the Deputy Minister of Finance and supported by a secretariat in the department.

When the National Treasury was formed through the merger of the former Departments of Finance and of State Expenditure in 2000, both the pensions administration

[32] Department of Finance, *1996 Budget Review*, section 2.7.2.5.

component and the PIC secretariat separated from the department as agencies, though they initially remained within the public service. The GEPF was the largest but not the only client of the administration and investment management agencies.[33]

Institutional change happened in several distinct steps.

With effect from April 2005, the Public Investment Commissioners were replaced by the newly established Public Investment Corporation (PIC), a juristic person created through the *Public Investment Corporation Act* of 2004. The PIC is governed by a board that is chaired by the Deputy Minister of Finance. As the GEPF's investment arm, the PIC now had extended fiduciary powers leading, over time, to the diversification of both the management of its funds and the mix of its investments.

In June 2005, the first meeting of the board of trustees of the GEPF was held. It established board committees responsible, *inter alia,* for governance, benefits and administration, investment, and finance and audit. Initially, the board was supported by staff of the Treasury's pension administration component. The GEPF Board, in effect, took fiduciary responsibility for pensions administration, although their responsibilities included several other funds and benefits administered on behalf of National Treasury. The Board's investment committee began an engagement with the PIC over the details of the investment mandate and how to exercise appropriate oversight.

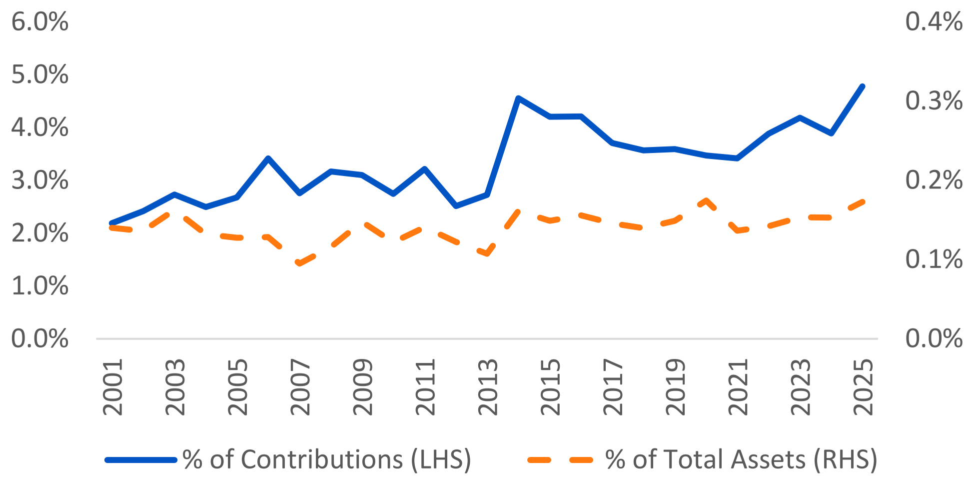
In 2007, the GEPF Board appointed a Principal Officer and support staff, as part of an agreed separation of the Board's staff from the administration function into a separate agency. This process was completed with the establishment of the Government Pensions Administration Agency (GPAA) in 2010, by presidential proclamation in terms of the Public Service Act.

Enhanced governance and stronger oversight of its investment portfolio have been priorities of the GEPF Board in recent years, particularly in the wake of the Mpati Commission's report on allegations of impropriety at the PIC.[34] A special advisory board has been established to oversee the unlisted investment portfolio, supported by two independent specialists. The investment mandate agreements with the PIC and other equity fund managers have been revised. The GEPF has substantially expanded its administrative staff and has supported the expansion of capacity at both the PIC and GPAA.

Since 2001, the resultant increase in administration costs and investment management fees as a percentage of member contributions and of total assets is illustrated in Figure 6.[35]

[33] The PIC also manages funds of the Unemployment Insurance Fund and the Compensation Fund of the Department of Employment and Labour. The Pensions Administration Agency administers post-retirement medical benefits, military pensions and other statutory funds and benefits on behalf of the National Treasury.
[34] *Report of the Judicial Commission of Inquiry into Allegations of Impropriety at the Public Investment Corporation*, 2020.
[35] Figure 6 and subsequent tables and figures are sourced from annual reports of the GEPF.

Figure 6: GEPF administration and investment management costs, 2001-2025

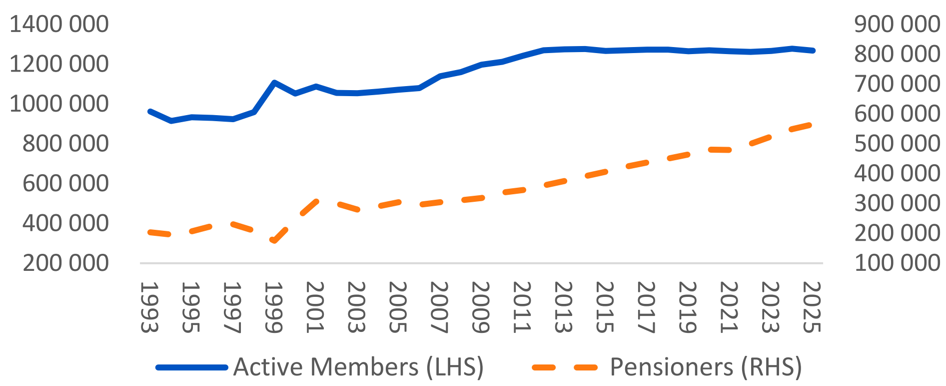


Source: GEPF Annual Reports

SIZE AND GROWTH OF THE GEPF SINCE 1993

Figure 7 illustrates the reported membership of the GEPF (together with the smaller associated institutions and temporary employees' funds, from 1983 to 2005).[36] The contributing membership increased from under 1 million in the mid-1990s to 1.2 million in 2009 and has been comparatively stable over the past decade at about 1.28 million. Pensioners increased from around 200 000 in 1993 to 307 000 in 2001, in part as a result of voluntary early retirements associated with public service personnel restructuring. Since the mid-2000s, there has been a steady rise in pensioner members to around 390 000 in 2014 and 565 000 in 2025.

Figure 7: GEPF active and pensioner membership, 1983-2025



Source: GEPF Annual Reports

Until 2005, it includes the Associated Institutions and Temporary Employees' Pension and Provident funds. Shifts in numbers over the 1998-2002 period reflect personnel restructuring, early retirement and other transition trends.

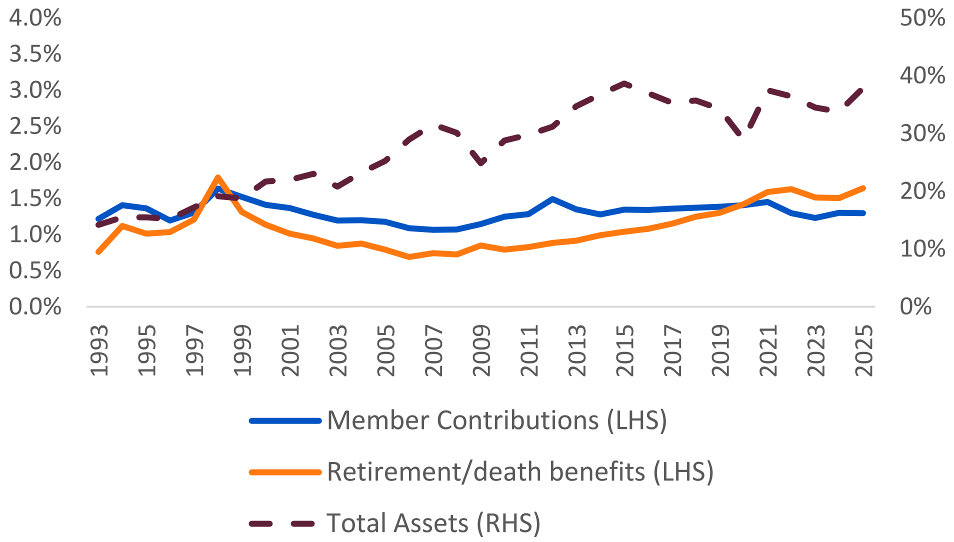
[36] In 2024/25 the GEPF Board approved the amalgamation of the Associated Institutions Pension Fund and the Temporary Employees Pension Fund into the GEPF.

Figure 8 illustrates the trends in contributions and retirement/death benefits paid, and in total assets of the GEPF, expressed as percentages of GDP, for March-ending financial years.

In 1997 and 1998, lumpsum payments on retirement more than doubled and then doubled again by comparison with the previous year. This was partly offset by increases in employer contributions associated with voluntary severance arrangements. Apart from these years, member contributions have been fairly stable as a percentage of GDP whereas pensions and lumpsum retirement or death benefits have trended up from a low point of 0.6% of GDP in 2006 to about 1.5% of GDP since 2020.

GEPF assets have increased from about 15% of GDP in the mid-1990s to over 30% since 2012. The impact on asset valuations of the 2009 recession and the 2020 COVID downturn is apparent from the trendline, as is the effect of improved asset prices in 2024/25.

Figure 8: GEPF contributions and benefits, and total assets, as % of GDP, 1983-2025



Source: GEPF Annual Reports

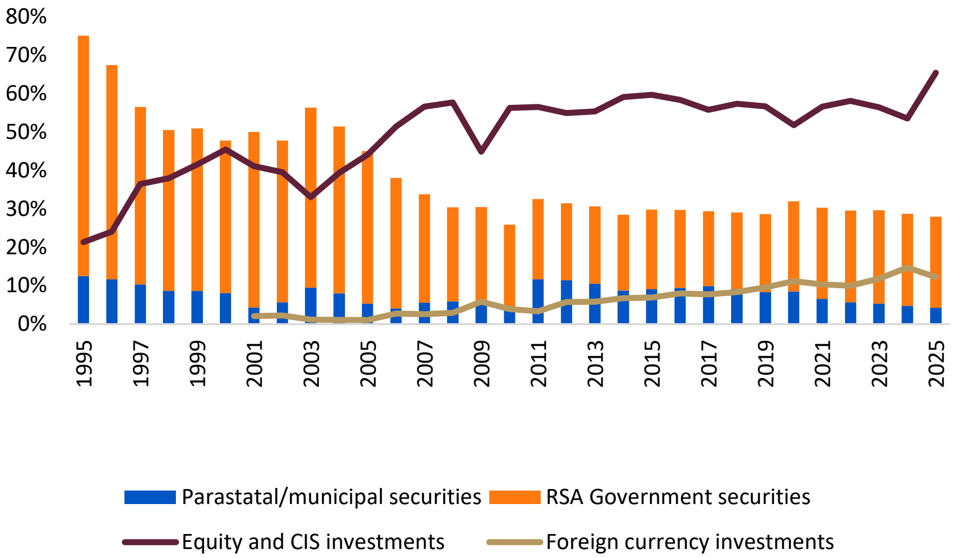
Government pension funds have long accounted for a substantial share of the non-banking financial sector. In March 1984, official pension and provident funds (including government funds and the retirement funds of the SA Transport Services) held assets of R13.1 billion, approximately 26% of total retirement fund assets (including long-term insurers' pension business), about 18% of the assets of non-bank financial institutions but just 11.6% of GDP.

Government pension fund assets have therefore increased by 2.5 times as a share of GDP *along with* the wider increase in financial intermediation in the economy. Financial institutions have, to an extraordinary extent, replaced individual and corporate investors in the South African economy.

Figure 9 illustrates the changing distribution of investments by the official funds and the GEPF since 1994. Whereas shares in companies were less than 10% of official funds' assets in 1994, equity holdings have been above 50% of assets since 2010. RSA government, parastatal and municipal interest-bearing securities were over 70% of assets in 1994, declining to around 30% of the total from 2008. Foreign currency denominated investments have increased from near zero in 2000 to over 10% in recent years.

A more detailed breakdown of the distribution of GEPF investments since 2003 is set out in Table 12. In 2003, fixed interest securities (mainly government and parastatal bonds) amounted to R153.8 billion, while equity holdings and CIS investments amounted to R103.1 billion. In March 2025, fixed interest bonds and treasury bills amounted to R830.4 billion, while equities and CIS investments had increased to R1 763.2 billion. South African government bonds declined over this period from 46.8% of total investments to 23.8%. Foreign currency denominated investments increased from 1,2% of the total to 12.2%, mainly comprising a R260 billion holding in a foreign CIS fund (BlackRock).

Figure 9: Distribution of official fund/GEPF investments, 1994-2025



Sources: SARB Capital account statistics, 1994-2000; GEPF Annual Reports, 2001-2024

Table 12: Distribution of GEPF investments, 2003-2025 (year ending 31 March)

R billion	2003	2007	2011	2015	2019	2023	2024	2025	Increase pa 2003-2025
Cash and money market funds	12.0	54.9	29.6	15.1	42.3	17.7	32.3	12.7	*0.3%*
Fixed interest securities (bills and bonds)	153.8	224.2	330.4	533.4	575.5	730.2	729.8	830.4	*8.0%*
of which: RSA bonds	*127.8*	*187.0*	*190.4*	*331.3*	*368.6*	*556.9*	*558.3*	*630.8*	7.5%
of whch: RSA parastatal & municipalities	*26.0*	*36.8*	*106.7*	*145.2*	*152.4*	*121.8*	*110.3*	*112.4*	6.9%
Equities and Collective Investment Schemes	103.1	379.2	541.3	1 026.4	1 139.4	1 479.7	1 506.6	1 763.2	*13.8%*
of which: unlisted	-	*24.7*	*13.8*	*45.7*	*68.1*	*84.5*	*96.1*	*108.5*	
Other investments	4.2	4.0	10.2	21.6	61.6	59.8	57.0	49.3	*11.9%*
Total investments	**273.0**	**662.3**	**911.6**	**1 596.5**	**1 818.8**	**2 287.3**	**2 325.7**	**2 655.7**	*10.9%*
Total investments as % of GDP	*19.5%*	*31.0%*	*29.2%*	*38.0%*	*33.5%*	*33.8%*	*32.8%*	*35.9%*	
RSA bonds as % of Total	*46.8%*	*28.2%*	*20.9%*	*20.8%*	*20.3%*	*24.3%*	*24.0%*	*23.8%*	
Foreign assets as % of Total	*1.2%*	*2.6%*	*3.3%*	*6.9%*	*9.6%*	*11.9%*	*14.7%*	*12.2%*	

Source: GEPF Annual Reports.

These trends reflect both the investment *decisions* of the PIC, as the GEPF's investment manager, and the *valuation adjustments* associated with market movements in equity prices, interest rates and exchange rates. Between March 2023 and March 2024, for example, government bond rates increased and so the market value of GEPF bond holdings declined, the JSE all-share index declined contributing to a deterioration in the value of equity holdings, and the rand weakened contributing to a rise in the rand value of foreign denominated assets. All three of these trends reversed over the subsequent year, reflected in the increase in holdings of fixed interest securities and equities, alongside a decline in the rand value of foreign currency assets.

The *National Financial Account,* published by the SARB, provides a complementary perspective on the annual net acquisition of assets associated with the PIC's investment decisions. The use of funds by the PIC for the 2021-2024 calendar years is summarised in Table 13, comprising mainly of its investments on behalf of the GEPF but including the management of funds of the UIF, the Compensation Fund and several smaller government clients.[37]

Table 13: Public Investment Corporation - Use of funds, 2021-2024 (calendar years)

R billions	2021	2022	2023	2024	2021-2024	*% of Total*
Cash and demand deposits	(9.0)	(13.8)	35.7	(31.1)	(18.1)	
Other monetary deposits	7.8	10.8	10.3	(13.4)	15.4	
Funds placed with other financial institutions	7.3	16.0	27.1	56.9	107.2	
Deposits and other placement of funds	**6.1**	**13.0**	**73.1**	**12.4**	**104.6**	***19.1%***
Treasury bills & short term govt bonds	(6.9)	20.5	(6.3)	(38.1)	(30.9)	
Long term government bonds	54.8	21.9	40.3	87.8	204.8	
Local government & public enterprise securities	(15.7)	(3.0)	(15.9)	(3.5)	(38.1)	
Investment in public sector securities	**32.1**	**39.5**	**18.0**	**46.2**	**135.8**	***24.8%***
Ordinary shares	83.0	70.6	29.6	71.0	254.1	
Other loans, debt instruments, preference shares	6.6	1.4	1.1	10.3	19.4	
Equity and loans to business enterprises	**89.6**	**72.0**	**30.7**	**81.2**	**273.5**	***49.9%***
Accounts receivable/payable	9.5	(0.5)	14.5	11.0	34.5	6.3%
Net acquisition of financial assets	**137.4**	**123.9**	**136.3**	**150.8**	**548.4**	***100.0%***
Memo:						
Investment in public sector securities as % of total issuance	*12.6%*	*21.0%*	*9.6%*	*12.6%*	*13.6%*	
Net acquisition of assets as % of gross domestic saving	*13.2%*	*12.9%*	*13.5%*	*15.3%*	*13.7%*	

Source: SARB Quarterly Bulletin, National Financial Account, flow of funds for the years 2021-2024.

Over this four-year period, just under a fifth of the PIC's net acquisition of financial assets comprised funds placed with other financial institutions (including foreign CIS units purchased on behalf of the GEPF).

Net purchases of South African public sector securities comprised a quarter of the PIC's use of funds for the 2021-2024 period. The PIC's net acquisition of long-term government bonds amounted to R205 billion, just over 25% of net issuance by the National Treasury. Over this period, the PIC reduced its holdings of treasury bills and short-term government bonds and of local government and public sector enterprise securities.

Approximately half of the PIC's use of funds over this period consisted in purchases of shares in companies or loans and other business investments – amounting to some R274 billion. It is pertinent to note that during this period, South African private sector corporate enterprises *reduced* their share issuance – mergers and acquisitions, de-listings and share-buybacks resulted in a *negative* net share issuance of some R350 billion. The PIC's share purchases were more than offset by disinvestment by other institutional sectors: foreign investors, financial intermediaries and corporate business enterprises.

[37] The PIC's *sources* of funds consist in the surplus funds it invests on behalf of the GEPF and other statutory entities. In the financial flow accounts, which are recorded at transaction values, these represent the cash surplus from operations of the PIC's clients (contributions received less benefits paid plus investment income) plus net profit from the sale of investments, less the change in cash retained by clients.

The PIC, investing on behalf of the GEPF and government social security funds, is still a significant contributor to meeting government's annual borrowing requirement, though it has not funded municipalities and state-owned companies in recent years. Its investment in domestic public securities over the past four years amounted to 13.6% of issuance, slightly less than its net contribution to gross domestic saving (or its share of domestic financing of gross capital formation). Public sector securities are now a much smaller share of the GEPF's investment portfolio than in the 1980s and 1990s. Whereas in 1994, the PIC held over 35% of outstanding government debt, it held only about 15% in 2024.

On the other hand, over the past 20 years the GEPF has become an increasingly prominent investor in listed corporate shares, in loans and other investments in unlisted companies and in foreign currency denominated funds.

The GEPF's investment decision process involves a carefully structured sequence of due diligence reviews and approval steps, subject to an agreed investment strategy which emphasises diversification and developmental impact. For a fund with a rising share of pensioner members, however, it is of concern that fixed interest securities are a declining share of the overall investment distribution. Alongside this concern, we raise broader fiscal and financial considerations below that also argue for a shift towards public sector securities in the GEPF's investment portfolio, in future.

THE GEPF INVESTMENT MANDATE: DIVERSIFICATION, DEVELOPMENT AND FISCAL SUSTAINABILITY

After two years of below-inflation increases, the GEPF recorded growth in its funds and reserves of over 13% in 2024/25. It will probably again see a strong financial performance in 2025/26, sustained by buoyant local and global markets.

The GEPF's recent financial statements reveal an extraordinarily diffuse investment portfolio. After reclassification of its foreign CIS fund investments into component categories, the March 2025 financial statements indicate the following:

- Approximately 55% of assts are held in domestic equities and 9.4% in foreign equities.

- Interest-bearing securities account for 31.3% of investments, of which three-quarters (23.8% of the total) were invested in South African government securities – mainly inflation-linked bonds. Just 4.2% of assets were invested in parastatal or municipal securities.

- Foreign currency denominated assets accounted for 12.2% of investments, though foreign assets inclusive of secondary listings on domestic exchanges amounted to about a quarter of total investments.

Although its investments are mainly managed by the PIC, there are also 39 appointed external asset managers. Investments under their oversight are held in several dedicated African infrastructure and development funds, including the Pan-Africa Infrastructure Development Funds managed by Harith Fund Managers (initially established by the PIC).

Foreign equity investments are mainly held through foreign-registered CIS funds, including a portfolio of over R150 billion (end March 2024) managed by BlackRock (UK).

Mainly through the Isibaya Fund of the PIC, the GEPF holds R108.6 billion in unlisted equities, of which about two-thirds are domestic investments, and R40.9 billion in direct loans. It has a property portfolio of R16.6 billion.

The 2024 and 2025 financial statements list over 60 companies or other entities for which impairments have been recorded, amounting to R16.3 billion over the last three years, including two investments in which losses of over R1.5 billion were made. Reversals of prior impairments in these three years amounted to R2.3 billion. A negative fair value adjustment of R1.7 billion was recorded in the property portfolio in 2023/24. In the context of the GEPF's overall portfolio of over R2.5 trillion these are tolerable investment losses, though they are comparatively large in relation to the unlisted portfolio and property assets.

From a macro-financial perspective, it is the balance between investment in public and private sector securities, and between foreign and domestic assets, that are of interest.

- Whereas South Africa's non-financial private corporations have since 2019 been *net savings* institutions, generating surplus funds some R1.6 trillion in excess of their gross capital investment, general government and public enterprises have run a R2.4 trillion *net borrowing* requirement. However, during this six-year period, the GEPF has increased its holdings of domestic public sector securities by about R225 billion, while increasing its equity investments by about R700 billion.

- Since 2019 the GEPF's foreign currency investments have increased from 9.6% of total investments to 12.2%. Inclusive of secondary listings on domestic exchanges, foreign assets are equivalent to about 24% of the total.

Over much of this period, the yield on rand-denominated public sector securities has been comparatively high in real terms and has matched or exceeded returns on domestic equities. Foreign investors have withdrawn from South African government funding in three out of the past six years and have also sold more than they have invested in domestic equities. In this context of weak foreign demand and limited interest by domestic savings institutions, banks have been the dominant investors in domestic public sector securities – and real yields in the bond market have indirectly contributed to the sluggish trend in credit extension to households and private enterprises and comparatively high bank lending rates in nominal and real terms.

As the investment mandates of the GEPF and the PIC are responsibilities shared between their boards and the Minister of Finance, arrangements through which fiscal and broader public interest considerations can be exercised can be instituted straightforwardly at the Minister's discretion.

This should perhaps be thought of in two parts.

Broad standing guidelines are useful for portfolio distributions – these have been developed over the years, should be reconsidered from time to time and might usefully be supplemented with supporting analysis and guidelines.

Portfolio limits provide a broad framework, but regularly reviewed *investment* guidelines are the more important contribution to ensuring that fund management appropriately takes account of fiscal considerations and the wider needs of the economy. In this the Treasury should take the lead, as it carries the central and encompassing trusteeship responsibility for the public finances and the overall public interest.

Conflict-of-interest questions need to be dealt with transparently, at two levels.

At the macro-financial level, the position is as follows. The GEP Law assigns joint responsibility for the investment mandate to the Minister and the Board for at least two broad reasons.

One is that the fiscus carries an underlying "underwriting" responsibility for the GEPF as a defined benefit fund. Allied to this is the Minister's shared responsibility with cabinet colleagues for the conditions of employment of the public service, of which the GEPF arrangements are an integral part.

The more complex consideration is that the GEPF is so large that its investment decisions are material in macroeconomic and fiscal-stability terms. There are therefore broad *public interest* grounds for the Minister to ensure that the investment mandate reflects South Africa's macro-financial and fiscal-policy needs. But it is also important, given the size of the GEPF asset base, that it should not serve as a temporarily convenient funder of fiscally imprudent or unsustainable budgets. A possible approach to addressing this concern would be for the macro-financial and fiscal advice on which the Minister draws in determining the investment mandate to be sourced from an expert committee that includes the National Treasury, the SARB and financial sector nominees.

Conflict-of-interest and competition issues arise also in the devolution of project evaluation and due diligence assessments that are the ongoing responsibility of the PIC and its investment management team. Particularly, but not only, in their evaluation of unlisted investment proposals, there are risks of improper influence, persuasive misinformation and lapses of rational judgement. By bringing in independent investment advisors, the GEPF Board has taken steps to mitigate these risks. Given the size of the GEPF asset portfolio, it is not unreasonable that it should ring-fence a share of its investments for broadening economic participation. It might be necessary to take this governance oversight further, through a separately governed and capitalised investment vehicle with dedicated expertise in private finance management.

This is a defensible way forward for the GEPF, though not without challenges. For the smaller clients of the PIC, the case for portfolio diversification is weaker. The trend over the recent past for the PIC to offer its smaller clients diversified investment options tied to secondary policy objectives (such as preserving jobs or supporting small enterprises) has led to difficulties. In the case of the Unemployment Insurance Fund (UIF), for instance, there were material losses following attempts to protect jobs in troubled businesses, and liquidity challenges when assets needed to be sold to finance the COVID-related employee relief scheme.

More fundamentally, it is implausible that the supervisory Department of Employment and Labour, Department of Justice, or nominated boards or management committees, or the PIC mandated to act on their behalf, can oversee fair and rational discretionary processes to decide amongst the potential universe of tens if not hundreds of thousands of possible beneficiaries of a competitive enterprise investment or employment-support programme. Attempts to do so all too easily succumb to undue-influence and patronage problems. The Constitutional principle that public policies and programmes should be underpinned by *laws of general application* is pertinent. Enterprise development and BEE support programmes should be supported through *dedicated* institutions with the relevant expertise and experience, and funds should likewise be appropriated explicitly for this purpose, not as the secondary objectives of social security arrangements.

For the UIF, the Compensation Fund, the Guardian's Fund and other PIC clients, the prudent approach is to restrict investments to public sector securities, or highly secure equivalent assets.

The GEPF is so large that its investment decisions have significant impacts not just on capital market trends but also on the wider credit market and investor confidence. Given its size, the GEPF must surely be the pre-eminent champion, amongst South African fund managers, of a patient commitment to long-term infrastructure investment and broad-based development. While a well-diversified investment portfolio could contribute to these objectives, a bias against meeting the public sector's borrowing requirements is a self-defeating strategy. Fiscal policy and financial sustainability should be considerations in the GEPF's investment mandate, alongside broader economic development priorities.