

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

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Slides to accompany BER Impumelelo Research Paper

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Outline

- Background: NPC “Financial architecture” analysis & recommendations
- Retirement funds and the wider savings industry –
 - Membership
 - Evolution over 40 years
 - Distribution of investments
 - Notes on the analysis
- The GEPF
 - Background
 - Investment trends
 - PIC and GEPF mandate issues
- Way forward
 - Is there scope for a “framework agreement” across the financial sector that would strengthen policy coherence and market confidence?

Background

National Planning Commission Report: *The Transformation of South Africa's Monetary Architecture, 1983-2024*

- The financial system as a set of “interlocking balance sheets” which can be “reconfigured” to address SA’s financial exclusion, infrastructure backlogs and inadequate private sector investment

“Rather than limiting policy to fiscal ratios or inflation bands, the state should act as a strategic orchestrator of financial flows, identifying, negotiating, and unlocking elasticity spaces where capital and credit can be redirected toward inclusive and sustainable investments in GFCF, in general, but in the Just Transition, in particular.”

- "Prescribed asset requirements" in the 1980s ensured that contractual savings were largely allocated to public investment needs. Since the 1990s, institutional funds have shifted to equity markets and foreign assets. What have the consequences been for the growth, capital formation and the public finances?

What is this about, economically speaking?

- How do we ensure that the financial system serves the collective needs of the economy alongside the interests of savers & investors?
 - In a context where confidence is weak & finance is mobile
 - Recognising that the financial system *intermediates* capital, it doesn't originate demand for funds
- Theoretical considerations:
 - If confidence in governance and policy is low, decentralised fund management decisions will diversify away from domestic public investment
 - The "collective" outcome is sub-optimal "patient capital" allocations, higher costs of public investment and slower growth
 - Deregulation of financial markets has to be accompanied by alternative coordination mechanisms
- More broadly: absence of a credible national investment plan
- Should public interest investment considerations accompany the tax-privileged and protected status of retirement savings?

Balance sheet reconfiguration: A National Financial Account perspective

Huge shifts in net financing flows accompanied the 2020 economic downturn...

R billion	2019				2020			
	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
<i>% of GDP</i>	<i>13.2%</i>		<i>15.9%</i>	<i>-2.7%</i>	<i>14.4%</i>		<i>12.4%</i>	<i>2.0%</i>

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.

Private business sector investment has not yet recovered...

...Net foreign investment remains subdued

	2023				2024			
	Gross saving	Net capital transfers	Gross capital formation	Net lending (+) / Net borrowing	Gross saving	Net capital transfers	Gross capital formation	Net lending (+) / Net borrowing
R billion								
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
<i>% of GDP</i>	<i>14.3%</i>		<i>15.4%</i>	<i>-1.1%</i>	<i>13.4%</i>		<i>14.1%</i>	<i>-0.7%</i>

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.

...Banks have become the principal funders of government

Institutional share as % of net issuance of domestic government securities

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.

Is this what we want to see?

- Banks taking up “risk-free” bond placements rather than allocating credit to businesses and households based on commercial and investment criteria
- Retirement fund managers shifting from domestic interest-bearing assets to corporate investment portfolios and foreign currency positions
- Key sectors that require “patient capital” (municipal infrastructure, housing) stagnating
- 2025 has seen large shifts in financial flows & the price of capital: what else is needed to achieve an investment recovery?

Growth and investment trends of savings institutions, 1983-2024

Retirement fund coverage

Above the tax threshold – Retirement fund participation is high

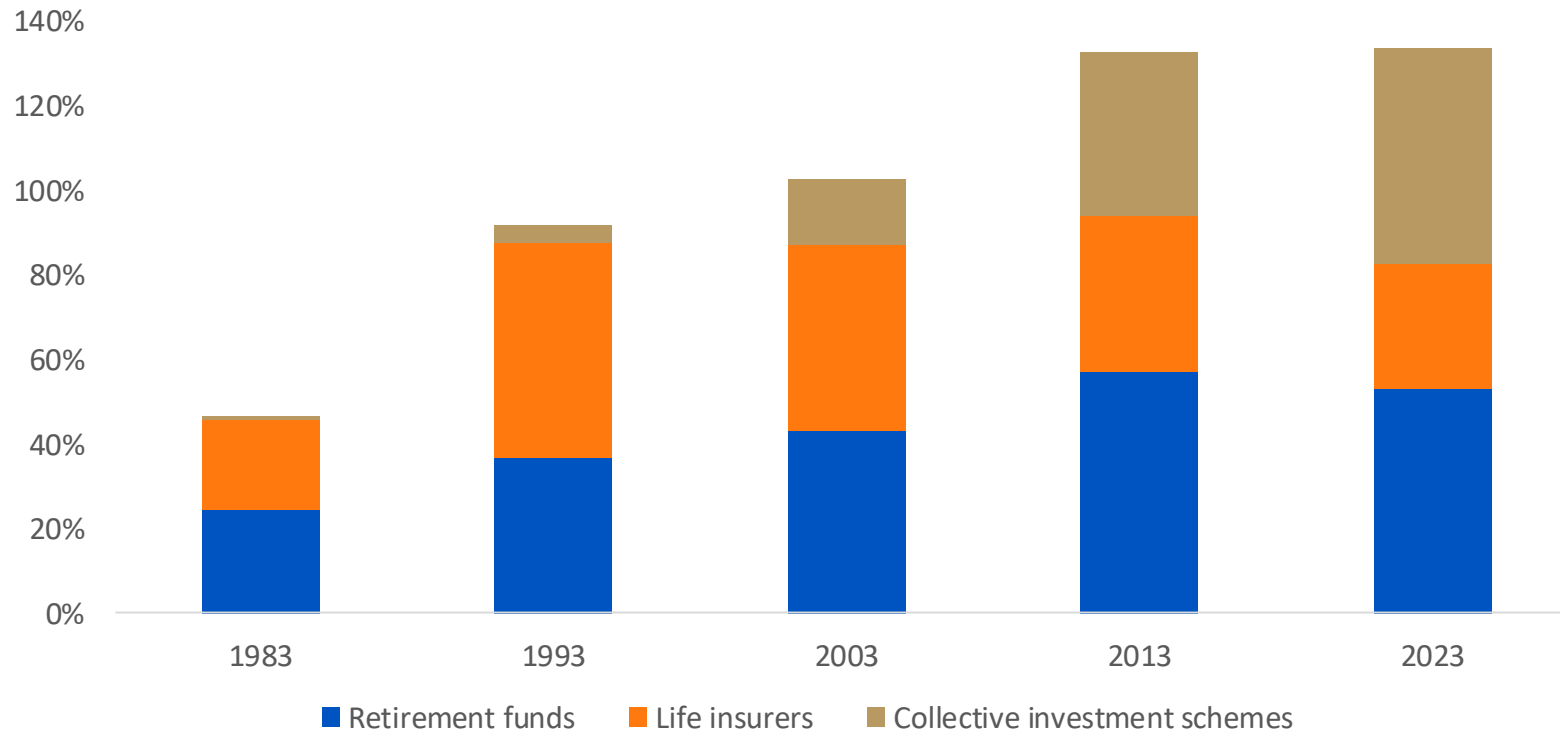
Broader coverage would require a standardised social security arrangement

	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.

Savings under institutional management have grown substantially over 40 years...

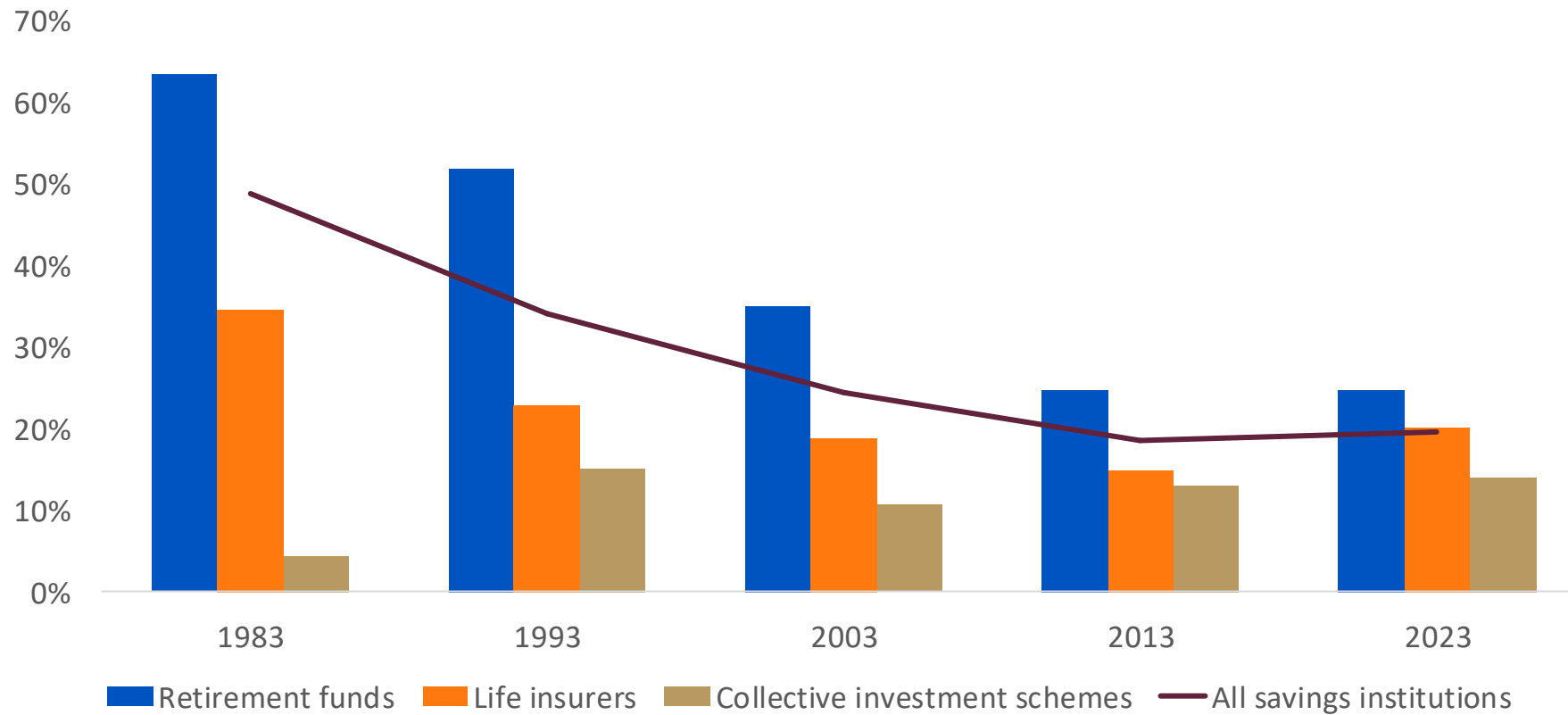
Total assets of savings institutions as % of GDP
after netting out cross-investments



Source: SARB Quarterly Bulletin data series; ASISA statistics.

...But declining investment in public sector securities

% of Assets of Savings Institutions held in Domestic Marketable Public Debt Securities



Source: SARB Quarterly Bulletin data series.

Distribution of investments of private retirement funds

	1983	1993	2003	2013	2021	2022	2023	2024
% of assets held by private retirement 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%
<i>Of which: Government stock</i>	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
<i>Of which: Foreign assets</i>			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.

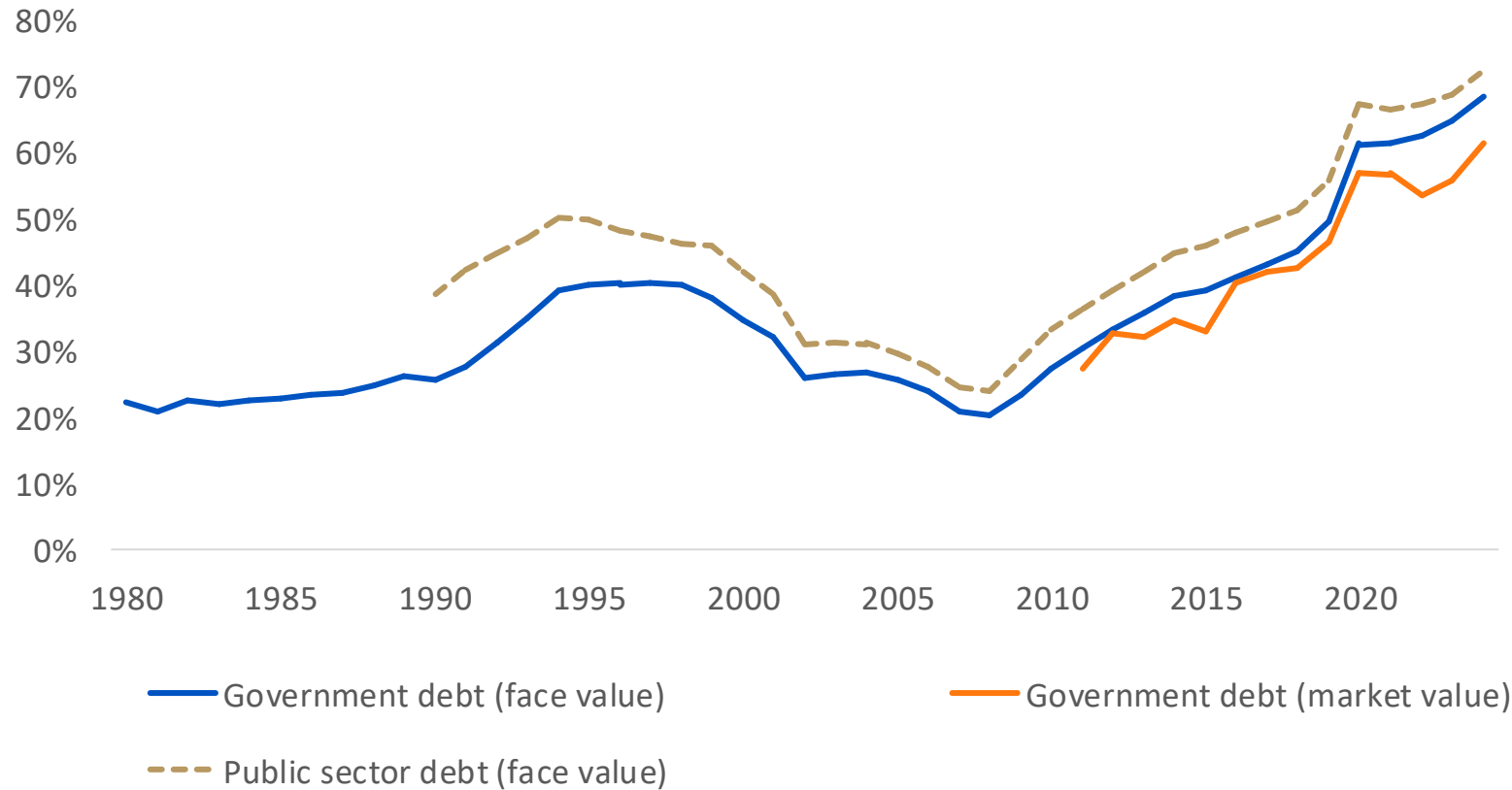
Distribution of investments of official retirement funds

	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%
<i>Of which: Government stock</i>	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
<i>Of which: Foreign assets</i>				20.6%	22.7%	22.7%	23.5%	24.2%

Source: SARB Quarterly Bulletin, Capital Market accounts.

While public sector debt has increased markedly since 2008...

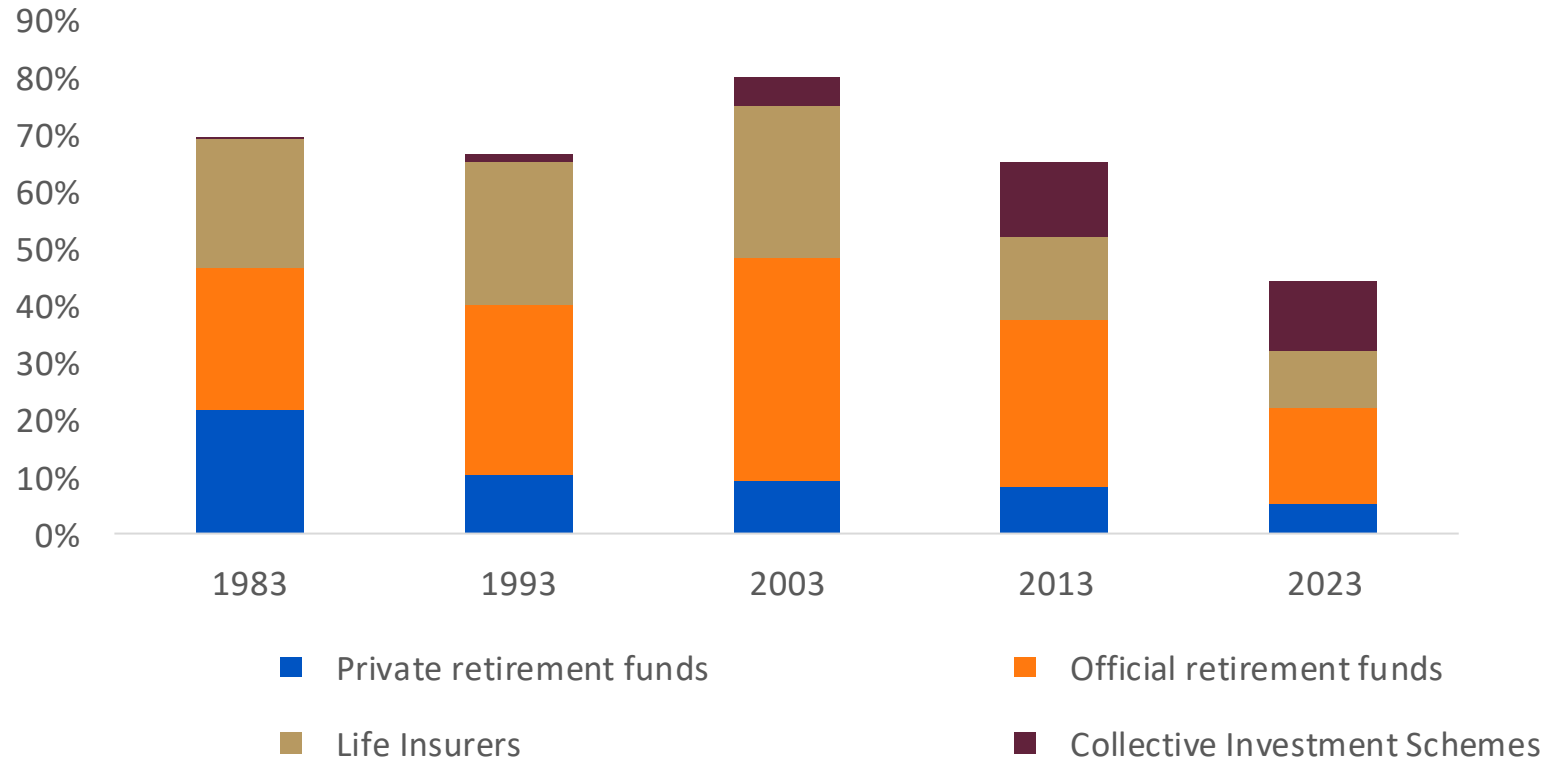
Domestic Marketable Debt as % of GDP, 1980-2024



Source: SARB data series.

...SA savings institutions hold a declining share of public sector securities

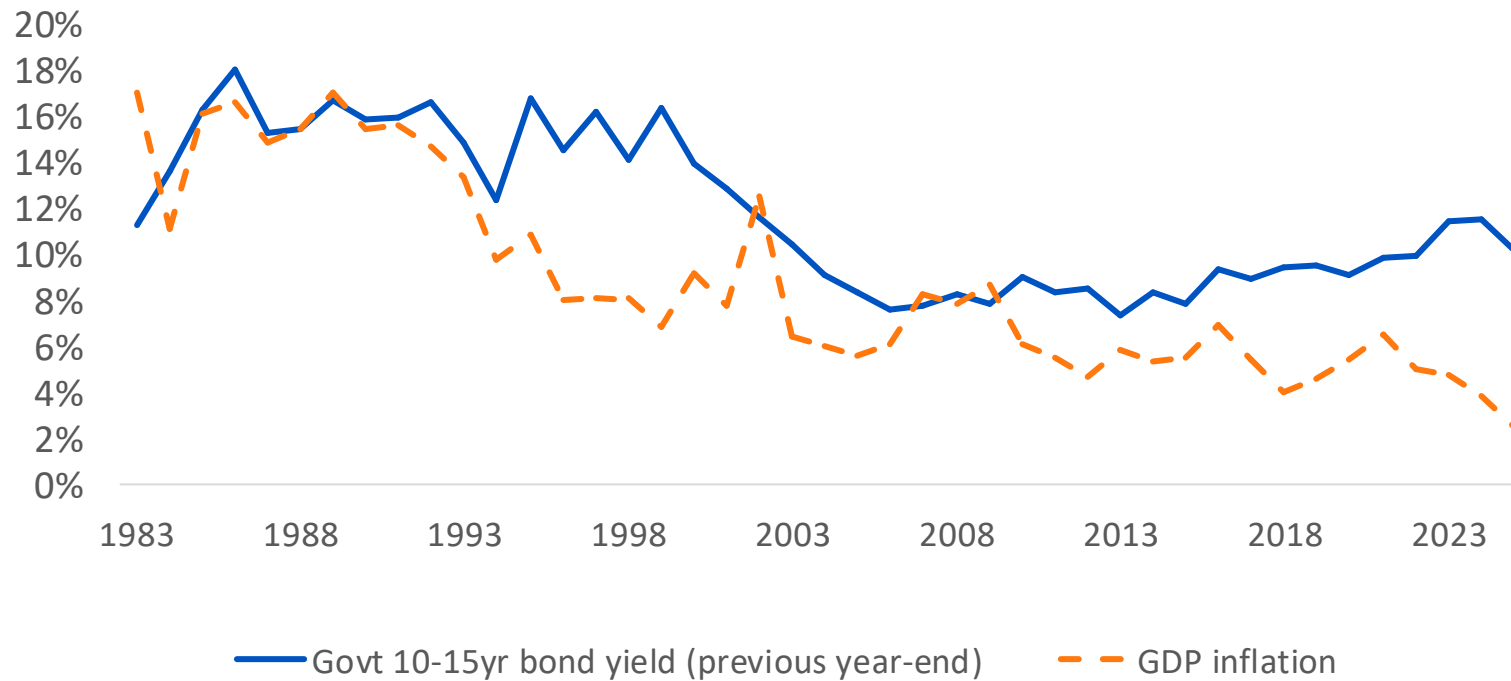
% of domestic marketable public debt held by South African savings institution



Source: SARB Quarterly Bulletin data series.

...despite a rising real bond yield

RSA Long-term bond yields and GDP inflation, 1983-2025



Source: SARB data series.

Notes on the analysis

- We use the current (rebased) estimates of nominal GDP as *numeraire*
 - For the 1990s, the upward adjustment over contemporary estimates is > 25%
- Accounting standards have changed over the period reviewed – effects are large
- Industry consolidation has been a long-term trend, still in progress
 - FSCA lists 4900 funds, but 4/5ths are inactive and winding down
- Classification of funds (“self-administered”, “underwritten”, “exempt”) is inconsistent and outdated
- Substantial duplication of membership numbers
 - 12m “active” members reported; around 7.3m contributors annually to SARS
 - FSCA reports 4.7m persons entitled to unclaimed benefits – use of associated funds has been under discussion for many years
- Pensioners who hold “out-of-fund” annuity products are excluded from analysis
 - Inclusion raises estimated number of pensioners to 1.6-1.8 million
- FSCA reports are still in essentially the same format as 40 years ago
 - Consolidation of reporting across retirement funds, life insurers and CIS schemes is needed, reconciled to SARS returns, for more complete picture

Policy considerations

- 40 years of reform – particularly following the 2004 *Retirement Reform Discussion Paper* – has greatly improved the integrity, fairness and robustness of SA's retirement system
- Broader participation would require a statutory (social security) basic contributory plan, to above the tax threshold
 - Accompanied by a well-designed subsidy element, this would enhance tax compliance
- Further consolidation should be encouraged
 - Contributes to better supervision and lower costs
- *Savings* institutions should not be assumed to have the *project appraisal* and *risk assessment* capacity needed for investment management
 - Credit assessment is a banking function
 - Investment is a *demand side* function of public authorities and business enterprises
- Deeper SARB-NT-FSCA coordination and engagement with financial intermediaries, key to developing an agreed framework for strengthening domestic investment
 - In concert with public infrastructure authorities and business sectors

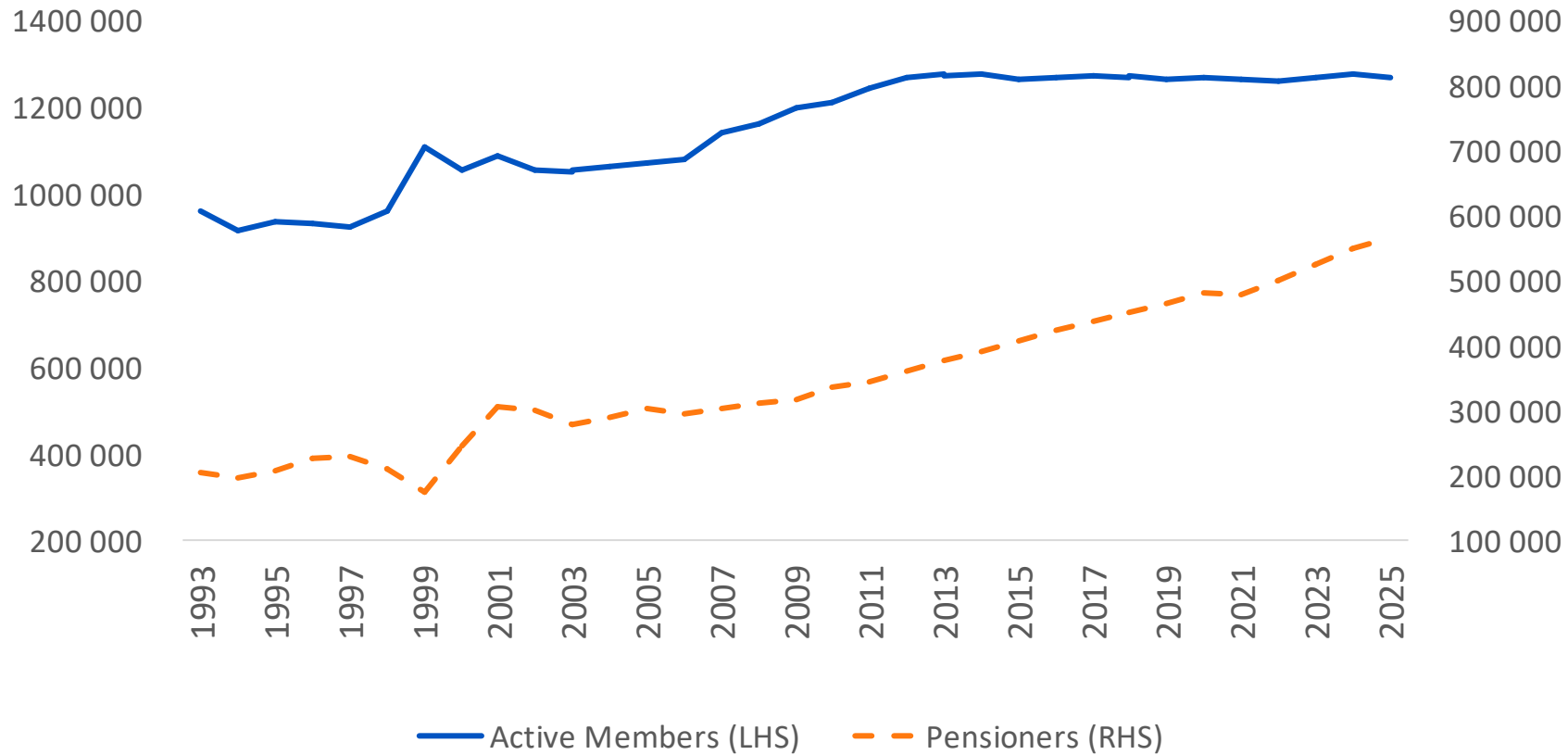
The GEPF – membership growth, investment trends and contribution to public sector financing requirement

Origins of the GEPF

- Funded defined benefit “final salary” arrangement for public service has long history – pre-dating 1910 Union
- Public service pensions in the early 1980s fell under the Minister of Health and Social Development
 - “Buy-back” provisions allowed benefits to be purchased below cost
 - Contribution rates too low; actuarial assessments not published
 - Held assets equivalent to around 40% of liabilities in mid 1980s
 - AD Wassenaar: *En route to fairyland*, 1987, revealed the actuarial position
- Reforms from 1988 under oversight of Dept of Finance
- Pensions Administration and PIC Secretariat functioned as CDs of Finance Dept

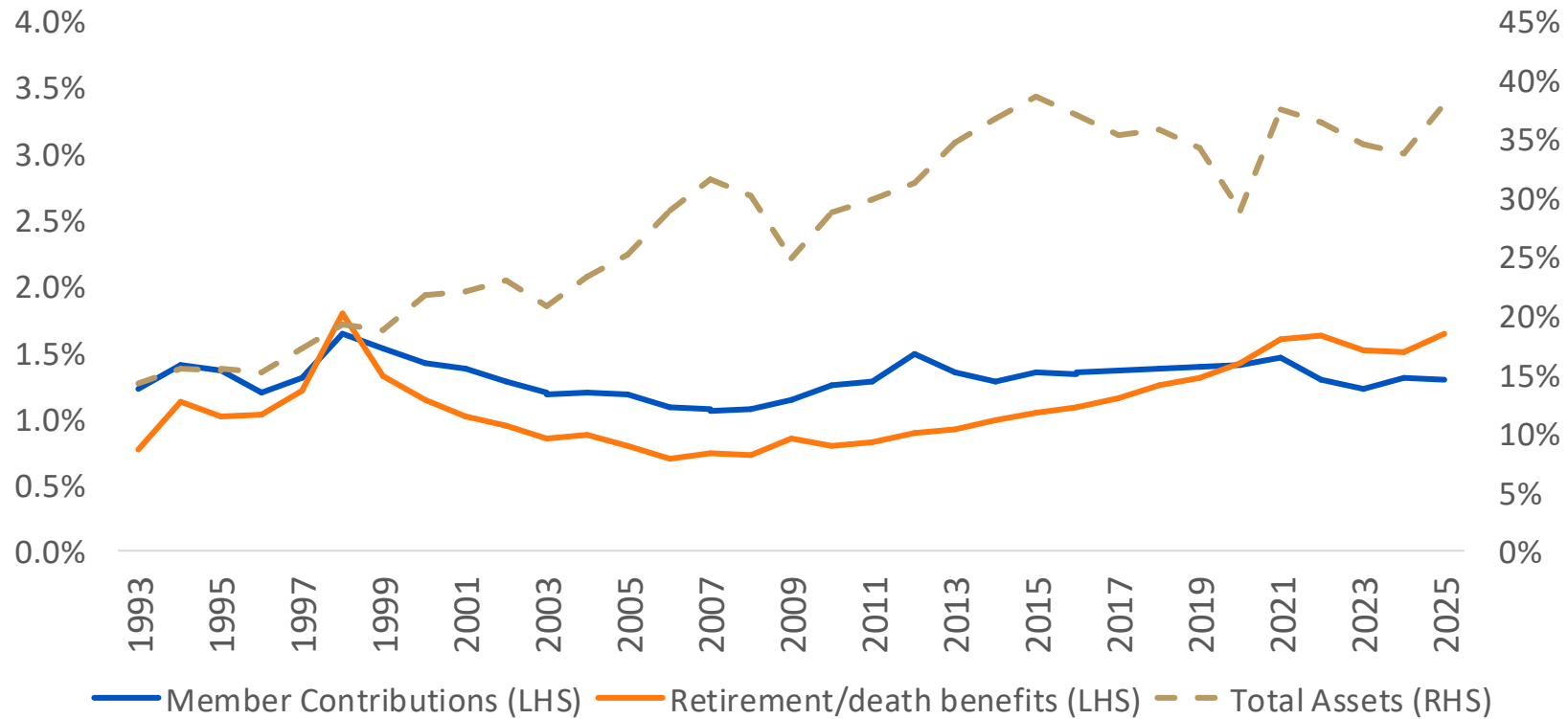
- GEP Law, 1996, outcome of PSBC negotiations, provided for a Board of Trustees and detailed rules of the GEPF
 - Amalgamation of ten separate funds of the RSA and former homelands
- Funding level of GEPF reached 96% in 2000 and 102% by 2006
- Board of Trustees appointed 2005
- Public Investment Corporation established in 2005
- Government Pensions Administration Agency established 2010

GEPF Membership, 1993-2025 (year ending March)



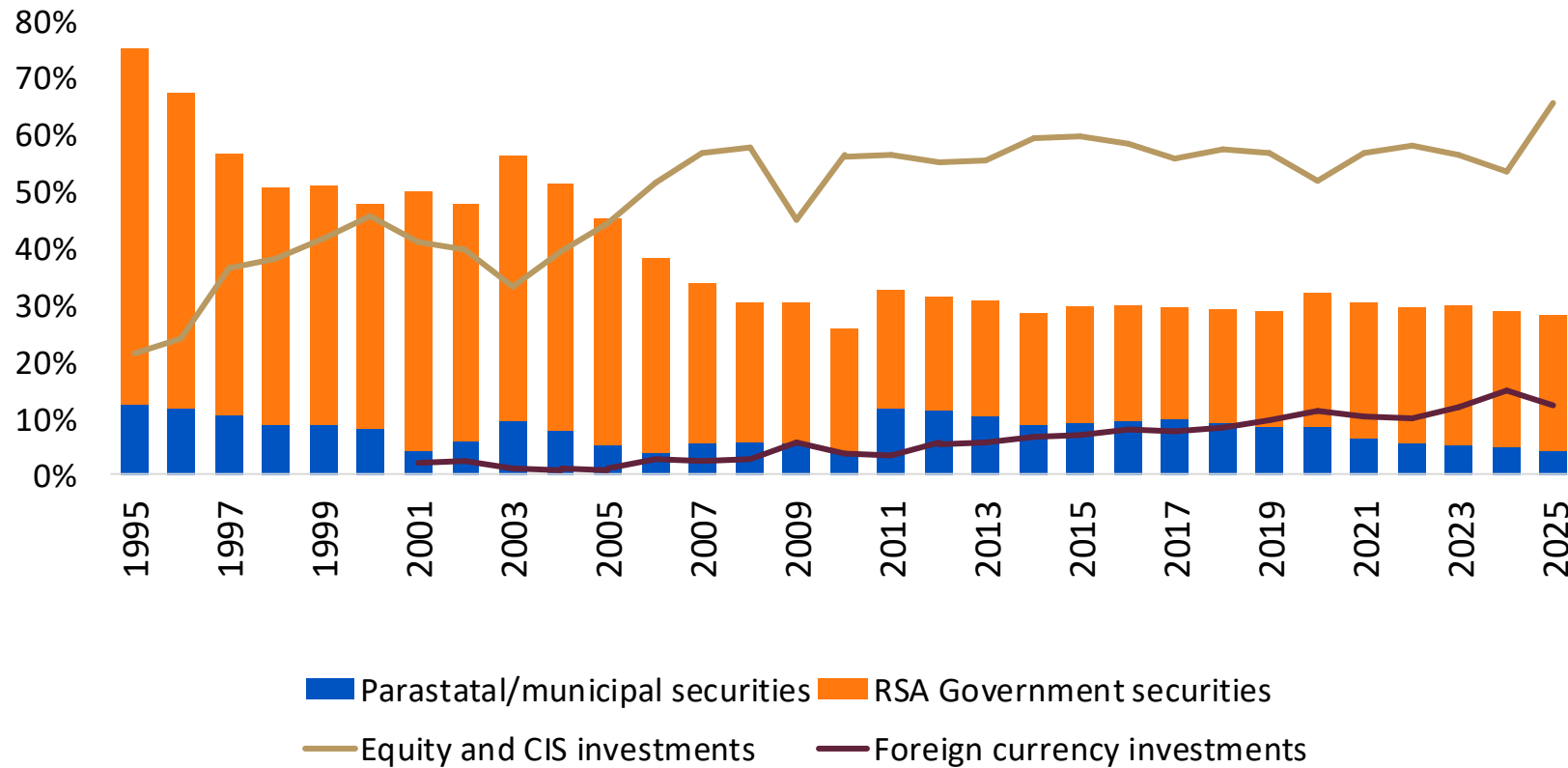
*Until 2005, it included the Associated Institutions and Temporary Employees' Pension and Provident funds.
Shifts in numbers over the 1998-2002 period reflect personnel restructuring, early retirement and other transition trends.*

GEPF Contributions, Benefits and Total Assets, as % of GDP



Source: GEPF Annual Reports.

Distribution of GEPF Investments, 1994-2025



Sources: SARB Capital account statistics, 1994-2000; GEPF Annual Reports, 2001-2024
 Note: Assets at market value from 2003

Distribution of GEPF Investments, 2003-2025 (March year-end)

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%
<i>of which: RSA bonds</i>	127.8	187.0	190.4	331.3	368.6	556.9	558.3	630.8	7.5%
<i>of which: RSA parastatal & municipalities</i>	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%
<i>of which: unlisted</i>	-	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%
<i>Total investments as % of GDP</i>	19.5%	31.0%	29.2%	38.0%	33.5%	33.8%	32.8%	35.9%	
<i>RSA bonds as % of Total</i>	46.8%	28.2%	20.9%	20.8%	20.3%	24.3%	24.0%	23.8%	
<i>Foreign assets as % of Total</i>	1.2%	2.6%	3.3%	6.9%	9.6%	11.9%	14.7%	12.2%	

Source: GEPF Annual Reports.

PIC: Use of Funds, 2021-2024 (at transaction value) (calendar year)

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%
<i>Memo:</i>						
<i>Investment in public sector securities as % of total issuance</i>	<i>12.6%</i>	<i>21.0%</i>	<i>9.6%</i>	<i>12.6%</i>	<i>13.6%</i>	
<i>Net acquisition of assets as % of gross domestic saving</i>	<i>13.2%</i>	<i>12.9%</i>	<i>13.5%</i>	<i>15.3%</i>	<i>13.7%</i>	

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

GEPF and PIC investment mandates – a fiscal perspective

- GEPF Investment mandate is a joint MoF-Board responsibility
 - There is a *fiscal policy* case for higher investment in govt securities in context of high/rising debt
 - (Real) bond rate is key to fiscal sustainability – remained too high for too long after 2020
- GEPF/PIC equity purchases in recent years have facilitated *disinvestment* by other funds and the foreign sector
- 2025 GEPF Annual Report signals change in the right direction
 - Stronger oversight of PIC
 - Investment specialist appointments
 - 2024/25 increased investment in domestic public securities
 - Nonetheless equities continue to increase as share of investments
- Sustainable development requires higher investment in municipal and utility infrastructure and in housing
 - An expanded role for the DBSA should accompany “patient capital” mobilization from the GEPF and other savings institutions
- The PIC invests on behalf of the UIF and Compensation Fund:
 - They do not need autonomous boards; should hold government securities only; should not be used to “fund” employment programmes

A footnote on macro-financial analysis

- Wealth effects are important
 - Inflation and interest rate reductions raise the market values of long-term bonds (fund-holders gain, borrowers lose)
 - Commodity prices and stock market trends affect valuations of savings funds: gains/losses distributed between intermediaries and clients
 - Impact of exchange rate movements is steeper if funds have greater forex exposure
 - When valuation bubbles deflate, credit markets freeze up...
- The “interface” between finance and the real economy operates partly through these effects, not easy to accommodate in macro models
 - The SARB capital accounts and institutional balance sheets are now compiled at market values; the financial flow accounts are compiled at transaction values
 - There may be fruitful ways in which wealth effects and determinants of investment can be studied through these analytical tools
- Financial sector statistics and reporting in need of review
 - Link with SARS records necessary for individual (rather than fund member) statistics
 - “Look-through” reporting of investments and netting out in consolidation are critical

Financing development in a low-savings economy – *how should we think about “reconfiguring the financial architecture”?*

- Fiscal consolidation – *a necessary but not sufficient* condition for redirecting finance to income-generating investment
 - Tax treatment of capital and savings under scrutiny
- Inflation reduction improves the investment environment, but at a cost to the fiscus & challenges in wage-determination
- Rebuilding infrastructure and adapting to urban growth requires broader cost-recovery & better targeted fiscal subsidies
- Low savings rates cannot be offset by monetary elasticities; savings will rise with income growth
- Foreign direct investment brings technology and supply-chain links; portfolio investment is passive & mobile
- Infrastructure investment and project management capacity must be built on the demand side, not through directing fund managers’ mandates
- If the balance in investment “banking” is to shift back towards business financing, retirement funds and savings intermediaries must meet a greater share of the public sector borrowing requirement
 - Jointly agreed guidelines might be a better way forward than repeal of the 45% regulation 28 limit

Policy considerations 1

- South Africa has moved over past 40 years from a *dirigiste* approach to channeling savings to domestic investment requirements to a more open regulatory framework
 - There has been a shift from providing “patient capital” to more active (secondary market) trading in equities and foreign assets
 - Banks have stepped in as lenders to government, but at the expense of their role as credit providers to households and businesses
 - Savings institutions continue to favour equity investments despite the *net surplus* position of South Africa’s corporate sector.
- If this is a “misallocation of capital” in macro-financial terms, it is a “collective action failure” arising in part from future uncertainty in financial intermediation markets
- South Africa’s pension funds are outliers internationally in their preference for equity over bonds and in reliance on insurance contracts and CIS investment funds
 - For much of the past decade, this has not yielded returns above the sovereign bond rate
 - Further industry consolidation should be encouraged, and lower levels of investment “churn”
- Effectiveness of Regulation 28 limits is unclear
 - Definitions of “infrastructure” and “foreign assets” lead to difficulties
 - Guidelines that recognise the tax-privileged status of retirement funds and macro-financial requirements of the economy should accompany the regulatory framework

Policy considerations 2

- GEPF and PIC investment mandates should be reconsidered
 - Treasury should take the lead in macro-financial guidelines
- The GEPF is “underwritten” by the fiscus
- Its portfolio is so large that its investments are material in macro-stability terms
 - Governance issues in project evaluation and due diligence need careful attention, perhaps with unlisted investments in a separately governed entity
 - UIF and other clients should have mandates restricted to public sector securities
- Social security reform has been delayed for too long
 - Treasury should take lead in broadening contributory social insurance, phased in without disruption of existing savings arrangements
- Statistics on retirement funds, coverage and the non-bank financial sector are in need of review
 - Investment trends and administration costs need “flow-through” analysis
 - Distributional aspects need new analytical tools
 - A joint working group of the NT, FSCA, SARB, SARS, Stats SA with expertise drawn from the industry is needed

THANK YOU.

Contact us

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