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Evaluating South African Pension Funds' Ecosystem Trends and Framework of Actions for the Government Pensions Administration Agency (GPAA)

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Abstract

As trends in South Africa's pension funds' ecosystem continue to change, periodic analysis of such trends is quite essential for discerning howthe government pensions' administration can improve its performance to create and deliver the desired pension values and benefits for the members. In that context, this research paper offers a critical analysis of the South African pension funds' ecosystem trends, so as to assess the strategic framework of actions that can be adopted to improve the performance of the government pensions administration. Findings revealed the critical political trends shaping the nature of pension administration encompass the introduction of the three-pot-system as well as the increasingly emerging stronger quasi-political groups that seek to influence not only how much the government pays for pension, but also how and when such pensions funds are managed and distributed. In addition to taking cognizant of the unfolding volatile economic trends like inflation, unemployment, the lingering negative Covid-19 economic effects and the increasing interest rates, social trends also reflected the increasingly ageing South African population as well as social lifestyle changes that may dictate whether or not the members may preserve or attempt to utilise all their pensions before the prescribed retirement age of 65. Combined with the introduction of the Financial Sector Regulation (FSR) Act 9 of 2017, Regulation 28 of the Pension Funds Act, Older Persons Act and the Madrid Plan of Action on Ageing & Amendment of the Income Tax Act and the Pension Funds Act that will introduce the Three-Pot-System, it is argued that the new approach would require the development and improvement of the online pension management system to take advantage of the internet-of-things to improve operational efficiency, lower operational costs and improve the quality of services offered to clients/members. Besides the utilisation of the modern big data technologies to enhance the effective gathering, analysis, storage, retrieval and utilisation of GPAA's enormous amount of data in different executives' decision-making, the new framework will also require increment of the investment of the members' pension funds in high interest generating ventures so as to insulate the values of the pension funds against inflation.

Keywords: Government Pensions Administration; Pension Administration; Pension Management; PESTEL; GPAA's Performance

INTRODUCTION

Effectiveness of pension administration is essential for enabling pension management schemes accomplish activities in the way that influences the attainment of the desired outcomes. It enables the pension schemes reflect to emerge with the course of actions that can influence the effective response to the needs and demands of the population or the pension scheme members(Samson, 2024). Pension administration links the pension members, investors and employees to enhance the overall efficiency of pension management to attain the desired outcomes. It is through pension administration, that managers are able to discern the best investments that pension fund must be committed to generate as much benefits as possible for the members. This improves the overall satisfaction of the members as well as the trust and confidence that they have in the pension administration schemes (Fraser, 2024).

However, given the constantly changing modern ecosystem environment, it is often difficult for pension administration to attain the desired outcomes. Unless accompanied with thorough evaluation and response to the unfolding dynamics in the pension administration's ecosystem, it can be difficult for the pension administration system to attain the desired outcomes. Without constant evaluation and response to the unfolding pension ecosystem dynamics, pension administration can be surprised by sudden events and turbulence that affect its capabilities to seamlessly create and deliver the desired benefits to all the members(Samson, 2024). It is such dynamics that motivate this research to evaluate the South African Pension Funds' Ecosystem Trends, so as to inform the decisions on the Framework of Actions that the Government Pensions Administration Agency (GPAA) can undertake to create and deliver the desired benefits for the members.

Government Pensions Administration Agency (GPAA) is the government entity which is created in terms of the Government Employees Pension Law (1996) to govern, administer and manage the pension of the government employees(GPAA, 2024). It manages some of the largest pension funds in Africa like the Government Employees Pension Fund which is Africa's largest pension fund, with 1 276 753 active members and 391 071 pensioners and beneficiaries as at 31 March 2014.

The pension fund also has more than R1.4-trillion in assets under management and is the single largest investor in Johannesburg Stock Exchange-listed (JSE) companies. GPAA also manages a combination of other pension funds like retirement pension fund, resignation pension fund, death benefits, funeral benefits, special pensions, military veterans' pensions, injury on duty benefits and medical subsidy benefits (GPAA, 2024). To ensure effective administration and management of the government employees' pension fund, GPAA engages in the management of records about new pension members coming in, the management and investment of the existing pension funds as well as the discerning the pension funds that are due for payment.

Though GPAA has been effectively accomplishing these activities since it was created in 2010, constant changes in the South African political, economic, social and technological trends imply that a critical analysis of its ecosystem is essential for discerning the course of actions that must be adopted to mitigate the current turbulence and respond better to the needs and demands of the members (Keylane, 2024). To accomplish that, the paper commences by evaluating the theories and literature on pension administration and management, prior to describing the methodology used in the study. After the elucidation of the methodology that used integrative review as one of the qualitative research methods, the paper presents the findings and the recommendations thatGovernment Pensions Administration Agency (GPAA) if it is to create and deliver the desired pension benefits to the members.

LITERATURE REVIEW

Pension administration is the strategic process of planning, gathering and managing data on all new and the existing pension members to discern how services required for pension administration can be provided to all the members in cohort with the employer organisations (Ebbinghaus, 2015). It is the strategic pension data gathering and management processes that aid the assessment of new pension members coming in, those retiring and the excess pension funds that can be committed in different investment ventures. Pension administration links the pension members with the employers as well as the companies in which pension funds are invested to ensure that the members are offered the best benefits during the retirement process. To ensure that the members get the best out of their retirement funds, pension administration also often has financial experts or link up with the financial experts to advise and educate the pension members on how to effectively utilise their pension funds to gain the desired value from the pension plan. In that process, pension administrators tend to engage in one-on-one sort of process of advising each member(Samson, 2024).

However, given the growing number of pension members, most of the pension administration schemes in the world are increasingly adopting different Internet and information technologies to enhance the online interactions and querying of any issues that the pension members could be concerned with about any aspect of pension administration, record and processing of pension payment (Adeniji et al., 2017). Pension administration has three dimensions that include record keeping, management and pension payout management. Recording keeping deals with the process of gathering and receiving all the records of new members. It is process of gathering, receiving and capturing new members' data to ensure that the date that the pension administration has is the same as the pension data that the employer organisations have about each and every employee(Ebbinghaus, 2015).

Once the records are obtained, record keeping dimension of pension administration also deals with the process of ensuring that the accurate record of all the members is stored in the best safest place that can be easily retrieved if required. With the usage of the modern information technologies for record gathering, processing, storage and retrieval, the record keeping process also ensures that the pension records of all the members are free from hacking or interference from any other external sources. Pension management as the other dimension of public administration deals with the planning, organising, leading and controlling of how different pension administration activities are accomplished to realise the best benefits for the members (Fraser, 2024). It deals with planning and communication with the employer organisations and the members to inform the general public about the discourse that pension administration must take. It is the pension management that sets the vision and direction that pension administration must undertake in regard to seeking to effectively manage members' pensions in the way that influences their ability to gain as more as possible for the members(Ebbinghaus, 2015).

Pension management ensures that pension funds are preserved and utilised for meeting the best interests of the members. Through evaluation undertaken by pension management, pension administration is able to discern the best companies in which the pension funds can be invested. It evaluates whether the investment can be undertaken according to short, medium or long term depending on the concerns that the pension administration must respond to (Keylane, 2024).Pension payout management deals with the assessment and processing of the pension pay outs which are due as well as the evaluation of the pension funds that must preserved for the members that may only desire it upon attaining employment. Pension administration is strategic cyclical process of evaluating the current environmental trends to discern the changes that have so far taken place and the new pension management issues that must considered to enable the effective response to the members' needs and demands (Fraser, 2024). Given the constantly changing modern ecosystem trends, it implies that without the periodic evaluations of the changes in pension administration's ecosystem trends, it can be difficult for the pension administrators to plan and act in the best interest of the pension members. Since the Government Pension Administration Agency (GPAA) faces challenges that are not different from such situations, it is in that context that this research paper used integrative review as one of the qualitative research methodology to evaluate the unfolding pension administration's ecosystem trends as well as how GPAA can effectively respond to such trends.

METHODOLOGY

Integrative review as one of the qualitative research methodology was used to evaluate and bring to fore the critical ecosystem trends that GPAA needs to consider and respond to if it is to attain its desired strategic goals and objectives. Integrative review refers to one of the qualitative critical content analysis that focuses on extracting and evaluating all kinds of documents to discern the insights that explain the phenomenon being investigated (Whittemore & Knafl, 2005). It uses an interpretivist research paradigm approach to ensure the thorough analysis and interpretation of the unfolding facts according to the researcher's understanding and insights as informed by the professional understanding. Integrative review differs from systematic review or meta-synthesis that all emphasise the extraction and analysis of only the peer-reviewed articles published in different academic journals. Since this research aimed to understand all the dynamics and complexities affecting GPAA or that GPAA must respond to in order to create and deliver pension benefits that respond to the needs and demands of the members, it was construed that the use of integrative review that gathers and analyses all kinds of literature would be suitable as compared to systematic review and meta-synthesis that only use peer-reviewed articles. To accomplish that, the process of integrative review was structured according to four steps encompassing the formulation of the integrative review question, literature search, extraction and analysis (Toronto & Remington, 2020). Integrative review question evaluated the question that probed:

> What political, economic, social, technological, ecological and legal trends must GPAA evaluate, track and respond to in order to create and deliver the desired pension benefits for all its members?

As such a question guided the literature search; the process of literature search was used the PESTEL (Political, Economic, Social, Technological, Ecological and Legal) Framework for Ecosystem Analysis. Whilst using such a framework, the literature search was further guided by the keywords that encompassed "political factors affecting pension administration in South Africa", "new political policies on pension administration in South Africa", "new economic factors affecting pensioners and pension administration in South Africa", "new social trends on pensioners and pension administration in South Africa", "technological factors influencing or affecting pension administration in South Africa", "new ecological trends on pensioners and pension administration in South Africa", "new legal trends on pensioners and pension administration in South Africa". While using keywords, literature search and extraction was accomplished using search engines like Google and Web of Science. The process of data extraction ensured that it was only the literature published in English and in the period between 2020 and 24 that were gathered. This is because GPAA is only interested in understanding the unfolding recent trends so as to discern the improvement initiatives that must be adopted in the way it manages the government employees' pension funds. After the extraction of the required data, the analysis was accomplished using thematic, narrative and discourse analysis to discern the political, economic, social, technological, ecological and legal trends that GPAA must evaluate, track and respond to in order to create and deliver the desired pension benefits for all its members. Combined with comparing and contrasting the views in different articles to test their veracity, validity and reliability(Whittemore & Knafl, 2005), the details of the findings of integrative review are as reflected below.

FINDINGS

Since the analysis used PESTEL (Political, Economic, Social, Technological, Ecological and Legal) Framework for Ecosystem Analysis, the details of the findings are presented according to six themes encompassing:

- Political Trends
- Economic Trends
- Social Trends
- Technological Trends
- Ecological Trends
- Legal Trends

Details of these trends are evaluated as follows.

POLITICAL TRENDS

Major political trends introducing changes that GPAA must be aware of are arising from the government policies or events introducing:

- Three-Pot-System
- Stronger Quasi-Political Groups

Details of these are discussed as follows.

Three-Pot-System

In the quest to balance the welfare and wellbeing of the members whilst working and during periods of unemployment, economic distress and retirement, the government has decided to make the retirement pension reforms introducing a “Three Pot System”. Such a position is drawn from the fact that during times of economic distress like during the Covid-19 pandemic and its persisting negative economic effects that continue to affect the economic wellbeing of the population, the general population has raised concerns about the sources of financial support that can be sought for survival.

Given the fact that it is not easy to withdraw pension funds unless it is confirmed that one is retiring or has terminated the existing employment, even the employed as well as the unemployed were put at the equal footing during the Covid-19 crisis. It was difficult for the employed to look into their pension funds as the last resort. Combined with the higher number of unemployed South Africans who require governmental support, this created a crisis.

Most of the members have been asking questions about the usefulness of holding huge funds in the retirement plan when one is suffering today and even unsure of making it tomorrow. It is from such a crisis background that the government introduced the pension retirement reforms to enable members be able to withdraw some percentages of their funds during periods of economic distress. Political changes arising from the pressure of the population is driving the government to introduce a few fundamental new retirement reforms.

The retirement reforms will introduce new pension management regimes that will change and transform how the pension funds are managed by the Government Pensions Administration Agency (GPAA). Previously members could withdraw their pension funds upon termination of employment or retirement. However, the amendments of the South Africa's Income Tax Act and the Pension Funds Act create a "Three Pot System" that is being implemented starting from 1 March 2024:

- **First Pot-Savings' Component:** One-third of contributions as well as investment earnings arising from March 1, 2024 will be allocated to savings component which is the first pot of the retirement pension fund. Members will be able to withdraw cash once per tax year from the savings component. Though there are still disagreements between the National treasury and Labour Unions, the savings component will be funded by the seed capital of 10% that will be drawn from the balance in each of the members' retirement fund account by August 31, 2024, though the previous date was scheduled for 1 March 2024.
- **Second Pot-Retirement Component:**From August 1, 2024, Second Pot which is the retirement component will reflect the other two-third contributions and earnings from the members. This second pot can only be used by members to purchase an annuity at retirement or death.
- **Third Pot- Vested Component:** Will reflect the account balance remaining after the deduction of seed capital. Vested component will continue to be subjected to existing payout rules that require payment to be made when changing jobs or retirement that requires usage of one-third in cash as the balance is used for providing annuity.

However, any of the members will be permitted to transfer some percentages of their savings and vested components into the retirement component at any time that they wish to do so, though such transfers are irreversible.These changes reflect the extent to which the population especially the working class will continue to demand pension schemes and administrative systems that are responsive their needs. They will continue to demand pension schemes and administrations that are responsive their needs and wellbeing not only during retirement, but also during the working years. Though the clarity of how the three pot system will be implemented will continue getting clarified with time, such political demands from the population imply that going into the future GPAA will have to:

- Adopt a more flexible and proactive approach to diagnose and respond to the needs of the members in the way which is easy, convenient and cost-effective to implement.
- To improve the efficiency of pension management and administration, the introduction of the three pot system will require GPAA to make some administrative and management restructuring

to create new management structures that specifically manage First Pot-Savings' Component, Second Pot-Retirement Component and Third Pot- Vested Component.
- Educate the members and the general public about the importance of saving and preserving funds for a healthy retirement.

Trends of pension reforms is not just a South African phenomenon, but also a common practice in which most of the countries around the world like Ireland, Denmark, Lithuania, Italy and Uganda have been engaging in the amendment of pension laws and policies and laws to members' early access to pension funds. In addition to such political trends, the Government Pensions Administration Agency (GPAA) must also be aware of the needs of the quasi-political groups like South African Older Persons Forum (SAOPF) and labour unions.

Quasi-Political Groups

Ever since the Minister of Social Development commissioned the investigation into the ill-treatment, abuse and neglect of older persons in South Africa, the South African Older Persons Forum was established to gain prominence as the critical influencer of government policies. As a quasi-political organisation, SAOPF advocates for the respect of the rights and dignity of older persons. It has grown from a member of just 156 members in 2005 to having thousands of members who in different ways influence government policies, legislations and the political approach undertaken to address the needs of older persons. This suggests in the execution of its different policies, GPAA will have to take into considerations the needs and demands of the increasingly emerging powerful quasi-political organisations like the SAOPF. These must be accompanied with the constant analysis and response to the concerns of the labour unions and organisations that often seek to not only influence the government pension laws and regulations, but also how the government pensions are managed and disbursed for the benefits of the members in retirement. The impact of the negotiating capabilities of the labour unions in influencing government pension laws and policies is reflected in the recent debates about the percentage of the balance in the pension account that must be transferred as seed capital into the savings pot component of the pension account.

ECONOMIC TRENDS

Major economic trends introducing changes that GPAA must be aware of are arising from the government policies or events introducing:

- Inflation
- Unemployment
- Lingering Negative Covid-19 Economic Effects
- Interest Rates

Details of these trends are discussed as follows.

Inflation

Though Russia-Ukraine War is a political factor, its emergence as accompanied with international sanctions preventing the importation of Russia energy products has caused the souring cost of energy.

This scarcity has caused rising prices that have induced inflation across the world. Increasing inflationary situations across the world has led to the increment of the prices of commodities like food, energy, transport and medication as the commodities commonly used by the pensioners.

Unless these persistent price increments are accompanied with the adjustments of the pension payments, it implies that the purchasing power of most pensioners will reduce. This will have significant negative impacts on the quality, conditions and standard of living of most pensioners.

As trends from OECD countries suggest, in the event of persistent inflation affecting the pensioners' purchasing power, the Government Pensions Administration Agency (GPAA) may be required to index pension payments to price changes. Indexing pension payments to price changes requires adjustments to be made to pension benefits or payment in the event of persistent price increases induced by inflation. Alternatively, the index could have a price threshold of which if it is crossed, the pension administrators would be required to make the necessary adjustments to the provided pension benefits.

Unemployment

As the lingering negative effects of Covid-19 continue to cause economic hardships, failure of some businesses to fully recover has caused the increment in the unemployment rate. Combined with the rising costs of energy and inflation, Statistics South Africa indicates unemployment rate to have increased from 32.1% in the previous season to 32.9 in the first quarter of 2024. As compared to trade and manufacturing, major job losses were registered in the sectors like construction, utilities, finance and community and social services. Increment in unemployment rate suggests more people are getting their employment terminated to thereby necessitate the need for the early access of the pension funds.

The increment in employment rate in trade and manufacturing also suggests that as employees resign from the other sectors, the early pension cash ins are used for the establishment of self-employment businesses and projects like normal trading or engagement in some form of manufacturing.In effect, innovative mitigating strategies are required for ensuring the sustainable management and administration of pension funds. This is because the constantly increasing rate of unemployment implies when considering investing pension funds, the GPAA must opt for more liquid and quicker income generating investments.

In the event of a surge in the demand for pension payout, this will improve the ability of the pension agency to easily to respond to the surge in demand for the employees taking early retirement to voluntarily venture in other business activities or as a result of the increasingly unavoidable economic hardships causing businesses to close and increase the rate of unemployment.In otherwords, economic hardships arising from the lingering negative effects of Covid-19 have also affected the retirement funds' preservation.

Lingering Negative Covid-19 Economic Effects

Covid-19 has gone and it is no longer necessary to wear masks. But its negative economic effects still lingers since those who lost their jobs have never got new jobs. There also businesses that closed or those that survived the pandemic, but have since failed to fully recover. For the majority of South

Africans who usually live in a communal African society setting, that means the employed ones must support the unemployed extended family members.

It also means that the employed with house and car bonds as well as other debts to pay must balance the meeting of such personal financial obligations with the taking care of own family members as well as the extended family members. Difficulties of balancing all such financial responsibilities in the midst of the not very well performing economy has induced economic hardships that lure the South Africans to explore all the probable ways of surviving.

One of such ways is often the tension to look for alternative jobs, resign from the existing and get pension funds cashed out to respond to the pressing financial needs and move on. Though such approach had become a practice amongst most of the working South Africans, the increasing economic hardships arising mainly from the lingering negative effects of Covid-19 has also compounded the situation. Increasing economic hardships arising mainly from the lingering negative effects of Covid-19 is preventing most of the South Africans from serving and preserving their retirement funds for the old age periods.

Instead economic hardships have rendered it a common practice where most of the employees resign and cash-out their retirement funds in order to complete the payment of their bonds or some of the debts that are affecting their economic wellbeing. As compared to the previous generations like Baby Boomers or Gen X, the Dot.Com generations are taking less years in one job without changing jobs just for the sake of cashing in from their retirement funds. As the Government Pensions Administration Agency (GPAA), it is essential note that such practices have affected the preservation of the retirement fund of most of the South Africans. The implication is that by the time one retires, there is often either just little remaining or even nothing completely to get upon retirement.

To deal with such scenarios, the National Treasury introduced the default preservation requirements for retirement funds in 2019. The default preservation requirements needed the creation of a default investment portfolio, default preservation and an annuity strategy. Though default investment portfolio required one to consider investing the fund if unsure about what to do with it, most of those retiring were still opting to cash out the funds only to end up being squandered. However, the introduction of the three pot system that will come into play by September 1, 2024 may solve such a problem since the three pot system as designated percentages that must be allocated to different components of the three pot system. However, the constantly rising interest rates may still affect pension fund and administration.

Interest Rates

As the South African Reserve Bank continues to hike interest rates to curb the constantly rising inflation, it will certainly affect not only pension funds' administration, but also how the members utilise their funds or think about utilising the pension investment[1]. Arising from the rise in energy prices that arouse from the sanctions imposed on Russia for violating Ukraine's sovereignty rights, the shortages of energy has still continued to influence the soaring prices of transport and all major commodities around the

[1]Neethling, B. (2024). South African Reserve Bank interest rate expectations – what experts say. Johannesburg: DailyInvestor.

world. Combined with the changes in climate causing either drought or excessive floods across the country, South Africa has not been exceptional to the rising prices of energy as well as food.

To curb inflation and its devastating economic impacts, the South African Reserve Bank's (SARB) Monetary Policy Committee (MPC) in 2023 introduced interest rate of 8.25% which is the highest in a decade to bring inflation to SARB's acceptable threshold of 4.5%[2]. However, it has still been difficult for SARB to curb the rising inflation as it only declined from 5.3% in March 2024 to just 5.2% in April 2024. Economists as well as SARB agree that it may take long to bring the inflation under control since most of the factors inducing inflation around the world are still subsisting.

As SARB's MPC states, this implies South Africa will remain with higher interest rates for a long time[3]. Higher interest rates are aimed at reducing the money in circulation and lower demand to bring prices down. But as SARB applies higher interest rates to curb inflation, it will certainly increase the costs of borrowing, housing and car financing. If not accompanied with the immediate increment of wages, it can affect the financial abilities of most of the consumers to continue repaying their house mortgages, car financing and other forms of debts. These can induce economic difficulties that can force some of the members to liquidate their pensions to pay off debts and remain debt free.

Higher interests affecting debt repayments may force most of the members to explore some of the ways for liquidating or withdrawing pension retirements that the National Treasury outlines to encompass; attaining retirement age of 55 years subject to the value of one's retirement fund, before reaching retirement age of 55 if the retirement fund value is equal or less than R15000, if emigrating and can prove non-tax residency in South Africa for a period of three years or more, upon expiry of work visa/permit or resignation from the current employer organisation.

To get off the risks of losing their houses, cars and other properties for non-payment of debts, most of the members may not only exhaust their savings pot, but also their retirement pot by taking early retirement or resigning, taking the pension cash out and again taking another employment. This will reduce or even completely deplete the vest pot component of the three pot system that reflects the account balance remaining after the deduction of seed capital.

Given the fact that vested component will continue to be subjected to existing payout rules that require payment to be made when changing jobs or retirement that requires usage of one-third in cash as the balance is used for providing annuity. If liquidation of the pension fund becomes quite prevalent, it may reduce the value of the pension fund that GPAA holds. For the pension funds invested in stocks, bonds and other forms of securities, the value could increase to yield better returns for GPAA and the members.

But still, higher interest rates causing higher rate of indebtedness that force members to liquidate their retirement funds still means even if retirement funds would fetch higher returns from different investments, GPAA will still have limited funds to investment. Even if some of the retirement funds

[2]Neethling, B. (2024). South African Reserve Bank interest rate expectations – what experts say. Johannesburg: DailyInvestor.

[3]Thuletho Z. (2024). South Africa: Interest rates to remain higher for longer, says central bank governor. Johannesburg: The Africa Report.

invested in stocks, bonds or securities will in certain cases have to be sold off to meet the surging demand for early pension pay outs.

SOCIAL TRENDS

Major social trends introducing changes that GPAA must be aware of are arising from the:

- Ageing South African Population
- Social Lifestyle Changes

Details of these trends are discussed as follows.

Ageing South African Population

Though South Africa has been having relatively younger population, Stats South Africa indicates that the South African population is increasingly ageing[4]. The implication is that the WHO (World Health Organisation) (2022) report projects that by 2050, the population of older people will comprise 15.4% of the entire South African population.

For the South African Government Pension Administration Agency, such statistics imply more pension pay out would be required to meet the needs of the ageing population. The increasingly ageing South African population is attributed to the improvement of the living conditions and standard of living as well as improvement of the accessibility of the general population to better healthcare services.

Combined with good nutrition as well as declining birth and mortality rates, these have caused the population to live longer and facilitate the seamless transition of the middle age population into the ageing category of the population. As a result of these factors, Stats SA's Ageing Index indicates that the increasing proportion of the elderly population per every 100 individuals younger than 15 years. The ageing Index increased from 30 in 2017 t0 33 in 2022. As reflected in Figure 2, by 2022, South Africa already had about 5.6 million people aged 60 years and above, which is 9.2% of the entire South African population of 59.89 million people[5].

[4] Stats SA. (2022). SA'S elderly population increasing steadily. Pretoria: Statistics-South Africa.

[5] Stats SA. (2022). SA'S elderly population increasing steadily. Pretoria: Statistics-South Africa.

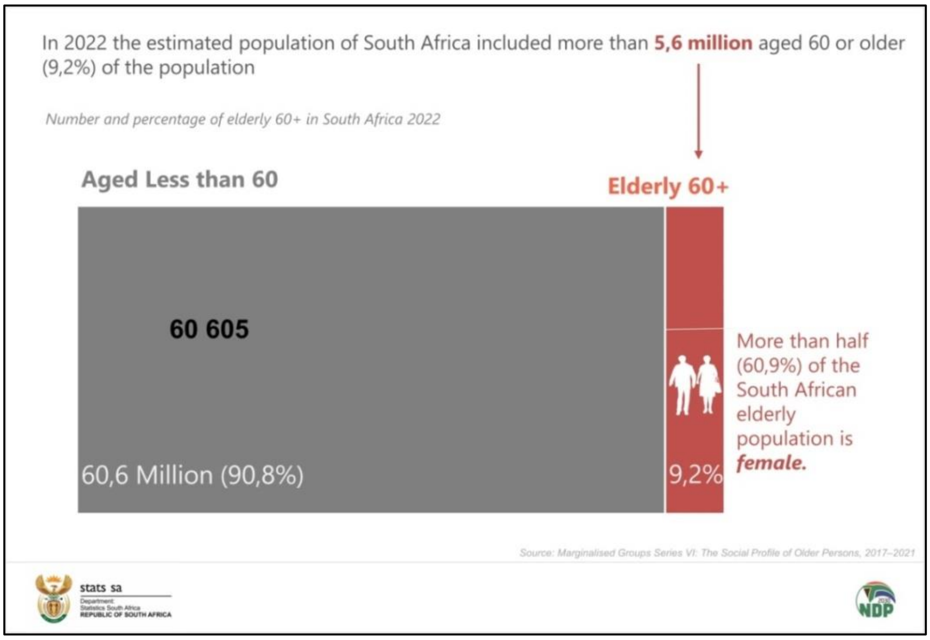

Figure 1: South Africa's Elderly Population

Source: Stats SA. (2022). SA'S elderly population increasing steadily. Pretoria: Statistics-South Africa.

Though the number of older persons increased across all provinces, Gauteng with the ageing population of 1.4 million and Kwa-Zulu Natal with the population of 940, 000 still emerged as the provinces with the highest number of the ageing population.However, across all the provinces, it is the female population that has experienced the increment of the ageing population from 60.4% to 60.9% as compared to the male ageing population. Increasingly ageing South Africa's population suggests that in the next five to ten years, GPAA must be prepared to handle complex multitudes of pension claims as millions of South African will have reached the retirement age to claim their pensions.

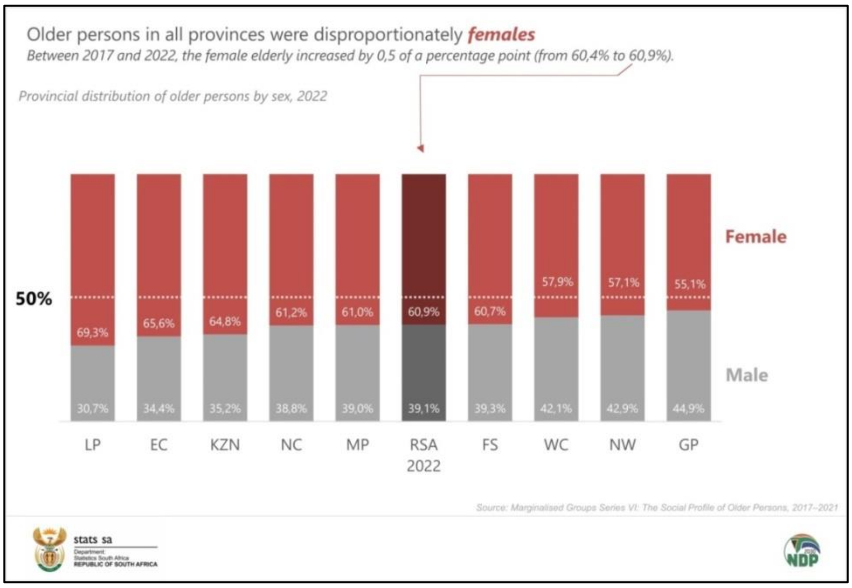

Figure 2: Proportion of Female Ageing Population

Source: Stats SA. (2022). SA'S elderly population increasing steadily. Pretoria: Statistics-South Africa.

To meet such needs, GPAA will not only need to lobby the government to increase the retirement age, but also consider investing pension funds in only the short and medium-term investments. This would enable the easily liquidation or maturity of some of the pension fund investments to meet the multitudes of claims that will be lodged by the multitudes of the South African employees who will be retiring en mass in the next 10 to 20 years.

Social Lifestyle Changes

Despite a huge chunk of 18 million people depending on social grants, social life styles as well as the living conditions and standards of most of the South Africans have been improving since 1994. These changes of the living conditions and standard of living have not only arisen from the enormous efforts that the government has undertaken to improve the economic lives of the population, but also the thinking and mindset of the population. Through a series of the challenges that the South Africans have gone through most of them have come to realise that attainment of financial independence is quite important.

From the 2008 financial crisis, Covid-19 to the effects of Russia-Ukraine War that has induced inflation throughout the world, most of the South Africans are increasingly recognising that investing in the income generating projects is essential for enhancing the attainment of financial independence. The implication is that even if the black middle class has been emerging and growing due to the socio-economic policies that the government has implemented, most of the black middle class are increasingly resigning and cashing in their pensions to create their own investment entities.

This is because from the Covid-19 experience that led to loss of jobs, most of the South Africans have started to realise that it is not reliable to depend on employment. Hence, most of them including the black middle class have been considering creating and investing their own entities.

As such mindset and culture entrench across the population; it may have two implications where GPAA will see increment in early retirements and pension pay outs. Or there could also be increment in the number of pension contributions arising from the increasing number of employers that will influence the increment in the number of the South Africans employed in different entities.

88.Adapted lifestyle past year	Total 2021	R8 000 - R14 999	R15 000 - R24 999	R25 000 - R49 999	R50 000+
Switched to a cheaper supermarket brand for most purchases	39%	41%	42%	39%	27%
Stopped or moved to cheaper DSTV option or a cheaper streaming	39%	44%	40%	37%	29%
Cut down on domestic help	36%	33%	35%	40%	35%
Moved to a cheaper cell phone or data option	35%	41%	36%	31%	21%
Given up gym subscription in favour of exercising alone/at home	31%	29%	31%	34%	29%
Put plans for major expenditure on hold	29%	22%	31%	35%	35%
Cashed in an investment earlier than planned	18%	16%	18%	22%	15%
Moved from one rented property to cheaper rented property	13%	15%	16%	10%	8%
Sold vehicle and not replaced, or traded down	10%	8%	9%	12%	14%
Taken advantage of low interest rates and bought property	10%	8%	8%	10%	21%
Moved children to less expensive school **(base = those with dependent children)**	12%	13%	11%	12%	9%
Sold home and downscaled	5%	3%	5%	5%	9%
Left a job in order to access retirement fund	2%	3%	2%	1%	4%
None of the above	15%	14%	13%	16%	23%

Table 1: How South African consumers' lifestyles have changed based on their earnings

Source: BusinessTech. (2021). New data shows how South African consumers' lifestyles have changed based on their earnings. Johannesburg: BusinessTech.

Given such trends, GPAA will therefore have to expand its capacity to deal with multitudes of new members as well as several new pension pay out that would arise from that will arise from either early retirement cases or increment of pension contribution members. To unlock extra financial resources for investment, statistics in Table 1 indicate that most of the South Africans are increasingly reducing on their expenditures and focusing on only the necessities in order to save for investments that improve future financial independence.

However, as 47% of South Africans rely on social grants, it implies that it will constrain productivity. It will lead to the tendencies of the adults to produce more babies in order to gain from social grants . These can lead to redundancies that affect the productivity of the country. Producing more babies will also lead to over population. For the South Africans who usually live in a communal setting, this implies that after social grants are terminated when the children have reached 18 years, the burden of looking after their economic wellbeing often set in for the working class members of the extended family.

This can influence the increment of domestic expenditure to affect the capabilities of most of the extended family members to look pay up their other debts. In the long-run, failure to pay up all the debts can force one to take early retirement so as to cash in their pensions to clear themselves off debts. These suggest that although in the short and medium term, social grants may ease the burden of caring for the extended family members, in the long-run; it will induce overpopulation and economic difficulties that will affect the pension savings for multitudes of extended family members. Yet it is not only such social trends that GPAA will have to watch, but also the changes in technological trends.

TECHNOLOGICAL TRENDS

Major technological trends introducing changes that GPAA must be aware of are arising from:

- Internet-of-Things
- Big Data Technology
- Information Security Risks

Details of these trends are discussed as follows.

Internet-of-Things

Technological changes that may enhance or even undermine the effectiveness of pension administration are reflected in the emergence of the internet technology. Internet technologies refer to the network technology that facilitates the interactions and communication of multitudes of people across the world through the aid of the World Wide Web. These interconnections have led to the emergence of the Internet-of-Things that depict a network of interconnected computers, devices, smartphones and networks that interact and communicate with each other in the process for the accomplishment of different business, social, economic or even political activities.

Internet of Things is increasingly improving the overall efficiency of Government Pension Administration. It is essential for not only connecting the employees, but also the employees with customers. This bolsters the seamless operation and interactions between pension administrators, employers and the employees who are pension members. Shifting of every operational activities to online nature of operations aids the elimination of wastes arising from unnecessary movements and transport costs as well as the reduction of printing costs that often consumes a lot of paper work for the pension administrators.

Internet of Things is also enabling pension administrators improve service quality by reducing the time that the members can apply, submit the required forms and get their queries or claims processed. Because every employer is interconnected through the aid of a network of computers, devices, smartphones and networks, pension administrators can create the mobile app through which members can just log in through protected passwords to check how their pension accounts are performing. They are able to accomplish a lot of tasks through online systems to reduce the overall costs of pension administration.

Since members can check their pension savings and investments using their smartphones or computers from anywhere that they may be, Internet of Things also improves the efficiency as well as the transparency of pension administration. Transparency of pension administration improves the confidence and trust that the members have in pension administration. Through the Usage of such digital technologies, GPAA can be able to achieve of its critical goals and objectives that are to:

- Reduce internal turnaround time
- Reduce employer turnaround time
- Enhance digital communication
- Improve process re-engineering and change management
- Enhance data management
- Improve human capital management development and requirements
- Enhance effective management of unclaimed and unpaid benefits

However, it is not only such advantages that tend to accrue from the usage of the recent technological advancements, but also data analytics.

Big Data Technology

Technological advancements have also led to the emergence of big data technologies. Big data technologies refers to a combination of machine learning, robotics and artificial technologies that are used for gathering, analysing, structuring and responding to the unfolding pension ecosystem trends. Since pension administrators deal with enormous amount of data, big data technologies are increasingly being integrated as part of the critical technologies for enhancing effective administration and management of pension savings, investments and pay outs.

Big data technologies enable the management of pension administration gather data and analyse data on the number of new employers joining different industries, the number of the existing and old employees as well as the subscription status from different sectors and the amount so far collected from different employers. It also enables pension administrators evaluate how the changes in the pension ecosystem trends is most like to influence members to either engage in the preservation of their pension investments or seek for more payouts.

Such analysis offers critical insights that enable the pension administration to assess the amount pension savings that must be subjected to long-term investments because of relative economic stability, or the amount of pension funds that must be subjected to short-term investments to meet the influx of pension claims that may arise from the prevailing difficult economic situations. Such insights enable pension administrators to take proactive actions and avoid the situations that can undermine the overall effectiveness of pension administration. Even if technological changes have introduced such advantages, there are also risks that the pension administrators must be aware of.

Information Security Risks

With technological advancements, artificial intelligence, machine learning and robotics are used for identifying and protecting information security breaches from different sources. But still the same technological advancements are used by criminals and fraudsters to engage in activities that compromise the security and safety of pension fund administration.

Given the growing migration of different business and governmental activities from the physical world to the online operational systems, trends in South Africa also indicate the increment of fraudulent online activities arising from coronavirus scams, chargeback fraud, phishing, lottery scams, inheritance fraud, online scams, dating and romance scams, identity theft and account takeover.

Though there are no known incidents involving online theft of pension funds, the department of Justice Guardian's Fund that was established on behalf of persons who are legally incapable to manage their own affairs was hit by an online fraud that led to the loss of R18 million in April 2023[6].

Due to the growth of online activities, Southern African Fraud Prevention Services (SAFPS) also reported the increment of online fraud by 600% in the last four years[7]. These imply that as the Government Pension Administration Agency (GPAA) introduce different internet-based technologies to improve its operational efficiency and drive down costs; it must also integrate technologies for identifying and preventing online fraud. These must be accompanied with the wider education that creates awareness for the pension fund members to avoid getting caught by online fraudsters.

ECOLOGICAL TRENDS

Ecological trends indicate the increasing emphasis of the government and business entities as well as other social organisations to adopt the triple-bottom-line (Planet, People and Profit) principles of not only seeking profits, but also enhancing the general wellbeing of the planet and people.In effect, the analysis of the ecological trends reflected three themes encompassing:

- Planet
- People
- Profit

Details of these themes are evaluated and discussed as follows.

Planet

Planet domain requires all forms of organisations to take the corporate social responsibility initiatives of improving the overall wellbeing of the ecological environment. Even if the organisation is not directly participating in the environmental improvement initiatives, the planet domain requires the organisation to either donate or participate in the education of the general public about the importance of destroying the ecological environment. For the organisations in the financial related sectors like pension administration, pension schemes, insurance, banking and fintech companies, planet domain is requiring the adoption of the lending or investment policies that avoid lending or committing financial resources in the accomplishment of activities that deplete the global environment.

Pension schemes or administration organisations that aim to invest excess financial resources in different interest generating ventures would require not only the submission of the business plan, but also the

[6]Gontsana, M.A. (2023). Justice department fund loses millions through "fraudulent transactions". Johannesburg: GroundUp.

[7]Modise, E. (2023). South Africa records 600% increase of fraud cases in four years. Cape Town: TechCabal.

environmental impact analysis to assess the impact of the project. The inclusion of the report of environmental impact assessment enables the pension administration organisation to assess the likely ecological environmental damages that may arise as well as how the business will seek to proactively mitigate and prevent the occurrence of such environmental damages.

With GPAA being the largest pension fund in Africa with 1.2 million active members, 39000 pensioners, R1.4 trillion in assets and the largest investor in the Johannesburg Stock exchange-listed companies, these imply that to improve the overall wellbeing of the planet, GPAA must only consider investing the JSE listed companies that respect the ecological environment in which they operate.

If GPAA cannot directly commit the resources for improving the ecological wellbeing of the planet, then it will have to avoid dealing with, financing or lending to the companies that violate the ecological environment. Though such approach improves the ecological wellbeing, trends signify that approach must be integrated with the approach that also improves the social wellbeing of the people.

People

For pension administration organisations, people constitute the active members, pensioners and beneficiaries as well as the employees of the pension administration, the partners and the general public that the pension administration deals with. Regarding the active members, recent trends indicate that in the more increasingly democratic societies, there is stronger emphasis for pension administration schemes to adopt more fair, transparent and efficient processes for collecting, managing and distributing pension funds upon members' retirement. This ensures that the interests and health of the members are well looked after during the retirement.

As raised by the South African Older Persons Forum, it is during the old age and retirement that most of the older people become quite vulnerable. Some often do not have proper accommodation, social support and even food. Yet though the quality of the healthcare services are improving, most of the older persons are often still affected by lifestyle diseases like cancer, heart attacks, liver complications, high blood pressure and diabetes. Due to such trends, there is increasing demand from the population to have pension schemes and pension administration agencies acting in the fair ethical process.

Engagement in fraud, corruption and embezzlement can affect the amount of funds that the pension administrators can have at their disposals to meet the needs and demands of the retiring old persons. People dimension of triple bottom-line principles require the pension schemes adopt social corporate responsibility initiatives that improve the responsibility to the society. These require pension administration agencies to act in the way that does not injure the society, but instead improves the overall wellbeing of the people and the society. Such initiatives can improve the initiatives of the pension agencies to generate as much profits as possible.

Profits

By opting to finance or invest in the businesses that respect the ecological environment, trends imply that pension administration agencies can be sure of reaping as much profits as possible. Companies that respect the ecological environment are most unlikely to be caught and fined for engaging in the activities that damage the ecological environment. This eliminates the risks of hefty fines for environmental damage to improve the overall profitability of the companies using the pension funds.

Since these companies pay interests to use the pension funds, their good adherence to the ecological environmental principles also improves their sustainability to bolster the amount of interests that they pay to pension agencies.It is through such approach that the pension administration agencies ensures the well management and investment of the generated pension funds to increase the amount of benefits paid out to the members upon their retirement.

As compared to investing the pensioners' monies in the companies that can be closed down for breach of the ecological environment, empirical facts also suggest the increasing usage of corporate social responsibility as a marketing tool. Engagement in corporate social responsibility enables the pension administration agencies to come to the spotlight and reflect themselves as pension schemes that respond the ecological environment and the general wellbeing of the population. This endears the pension schemes to the population to improve their overall trust and confidence in the pension administration schemes and organisations. But even if that is the case, there are also a combination of new laws and legislations that the pension administration agencies and schemes must be abreast with.

LEGISLATIVE TRENDS

In the quests to improve the management and conduct of the financial institutions, the South African financial market has experienced the introduction of the Financial Sector Conduct Authority (FSCA). FSCA was created by the Financial Sector Regulation (FSR) Act 9 of 2017. Given the weaknesses of the regulation and governance of the conducts of the players in the South African financial sector, the Financial Sector Conduct Authority (FSCA) was introduced in 2018 to replace the Financial Services Board (FSB). Just like FSB, it seeks to regulate the market conducts of the financial institutions like bank, insurance firms, retirement and pension funds, schemes and administrators.

FSCA is mandated with the roles of enhancing the efficiency and integrity of the financial markets and promoting fair customer treatment by all the players in the financial sector. It also seeks to offer financial education so as to promote the financial literacy of the population on how to handle financial matters and essential aspects like managing and using pension benefits upon attaining retirement age. In the new changes, the Financial Sector Regulation Act 9 of 2017 also extends the mandate of FSCA to encompass exercising oversight over the financial products and services not overseen by the FSB banking services relating to credit, as well as the buying and selling of foreign exchange.

The regulation further dictates the importance of shifting the approach from FSB's traditional compliance driven model to the proactive, pre-emptive, risk-based and outcomes focused approach. In addition, FSR Act also seeks to improve financial inclusion and transformation of the financial sector by focusing on six main priorities that encompass building a new organisation, as well as creation and maintenance of an inclusive and transformed financial sector.

FSR Act further aims to create and maintain the regulatory framework that promotes fair customer treatment, development of informed financial customers, strengthening the efficiency and integrity of the financial markets, and understanding new ways of doing business and disruptive technologies. As part of the Pension Fund Act of 1956 that governs different aspects of pension funds in South Africa, the National Treasury also introduced new changes in terms of Regulation 28 of the Pension Funds Act.

Regulation 28 seeks to improve the way pension funds are managed and governed in South Africa. To aims to improve how pension funds are invested in various assets so as to protect the investors and pension funds against poorly diversified investment portfolios. It aims to minimise the risks that the pension funds are exposed to. In the spirit of the 1996 Constitution of the Republic of South Africa, Older Persons Act and the Madrid Plan of Action on Ageing that seeks to improve the lives of older people, their families, and the communities in which they live, major pension legislative changes in South Africa are also reflected in the government's initiatives to amend the South Africa's Income Tax Act and the Pension Funds Act. It is the amendment of the Income Tax Act and the Pension Funds Act that will introduce the three pot system allowing employed South Africans to access their pensions during difficult times, upon retirement and if changing employment as it is with the current pension regulatory regime. Combined with the other trends, the recommendations below imply the Government Pension Administration Agency will have to introduce a number of changes if they are to respond to the present trends in the way that meets the needs of the South Africans.

MANAGERIAL IMPLICATIONS

Managerial implications of this research suggest to thrive, GPAA must still continue to analyse and respond to the changing pension fund ecosystem trends. Such analysis is essential for GPAA to not only respond to the needs and demands of its clients or members, but also to avoid or mitigate any incident that may undermine the effective management of the members' funds. So far, facts from this study imply that the critical political trends that GPAA's management must pay attention to encompass three-pot-system as well as the increasingly emerging stronger quasi-political groups that seek influence not only how much the government pays for pension, but also how and when such pensions funds are managed and distributed. In addition to taking cognizant of the unfolding volatile economic trends like inflation, unemployment, lingering negative covid-19 economic effects and increasing interest rates, GPAA must also focus on evaluating and responding to social trends reflecting the increasingly ageing South African population as well as social lifestyle changes that may dictate whether or not the members may preserve or attempt to utilise all their pensions before the prescribed retirement age of 65.

Figure 1: Strategic Framework of Actions for the Government Pensions Administration Agency (GPAA)

Managerial implications of the findings suggest that such analysis must be combined with the evaluation of the technological trends like internet-of-things, big data technology and information security risks. Other trends encompass the ecological trends depicting the increasing embracement of the triple-bottom-line (planet, people and profit) principles as well as legislative trends arising from the introduction of the Financial Sector Regulation (FSR) Act 9 of 2017, Regulation 28 of the Pension Funds Act, Older Persons Act and the Madrid Plan of Action on Ageing & Amendment of the Income Tax Act and the Pension Funds Act that will introduce the Three-Pot-System. Given such trends, it is argued in Figure 1 that the Strategic Framework of Actions that the Government Pensions Administration Agency (GPAA) would adopt would require:

- Restructuring of GPAA's management system according to three-pot-system (pot-savings' component, pot-retirement component & pot- vested component)
- Development and improvement of the online pension management system to take advantage of the internet-of-things to improve operational efficiency, lower operational costs and improve the quality of services offered to clients/members.
- Utilisation of the modern big data technologies to enhance the effective gathering, analysis, storage, retrieval and utilisation of GPAA's enormous amount of data in different executives' decision-making.
- Boosting GPAA's cybersecurity to prevent the increasing information security risks.
- Embracement of the of the triple-bottom-line (Planet, People and Profit) principles when discerning the investment ventures on which the members' pension funds must be committed.
- Investment of the Members' Pension Funds in High Interest Generating Ventures so as to Insulate the Values of the Pension Funds against Inflation.

Utilisation of all these strategies would bolster GPAA's capabilities to respond to the unfolding trends to create and delivered the required pension values for the members.

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