

Van der Berg S

THE MEANS TEST FOR SOCIAL ASSISTANCE GRANTS AND ITS RECENT EVOLUTION¹

Prof S van der Berg is a professor in the Department of Economics, University of Stellenbosch, Stellenbosch

1. INTRODUCTION

Social assistance relates to that part of the social security system which provides material support to certain eligible categories of persons based upon need rather than contributions. South African social assistance programmes are relatively large for a developing country; currently, about R18 billion (2½ % of GDP) is spent annually on such social transfers to households. They contribute substantially to income of poor households and, of all social programmes, are best able to reach the rural poor. But the interaction between private income sources and social grants complicates the economics of social assistance, as means tests potentially affect incentives and behavioural responses to social grants.

After long fragmentation and apartheid-based differential means tests, the means test and benefits were unified in 1996 when new regulations were promulgated.² These regulations, however, were considered by some to be inappropriate and contributing to the inordinate rise in social assistance costs for the state in the following years. Based on an investigation, a new set of regulations was promulgated in 1998³. This paper flows from this investigation and the accompanying recommendations to the Department of Welfare (Van der Berg 1996). In this paper three means tests are considered: the apartheid means tests, the unified new means tests of 1996, and the amended means test as contained in the 1998 regulations.

South African social assistance consists largely of three programmes or combinations of programmes:

- social old-age pensions (\pm 60% of the value of all social transfers),
- disability grants (\pm 25%), and
- child and family maintenance grants / child support grants (\pm 15%).

The system of child and family grants was recently fundamentally changed and replaced by means-tested child-support grants, but this paper focuses only on the other two programme, as eligibility for them is ruled by a common means test. For pensions, the means test and age determine eligibility; for disability grants, eligibility is further influenced by physical disability. Disability grants go to almost 3 per cent of all people in the relevant age groups (i.e. 16-59 for women and 16-64 for men, before they become eligible for old-age pensions). Due to lack of information about the number of disabled people, it is impossible to determine coverage of the disabled. Social old-age pensions reach 75 to 80 per cent of the population eligible by age (women from age 60 and men from age 65). High coverage amongst the elderly is a measure of the

¹ This paper is based on work for the Department of Welfare in October 1996 on the economic impact of the 1996 means test regulations.

² Government Notice 17 016 of 1st March, 1996.

³ Government Notice 18 771 of 31st March, 1998.

widespread acceptance this programme enjoys, as those not receiving it are mainly excluded through eligibility criteria (the means test) rather than through administrative obstruction or personal preference (stigma). This contrasts with the situation in developed countries such as Britain, where low take-up rates amongst the eligible for means tested benefits are widely ascribed to the stigma attached to such benefits (Atkinson 1983). The wide prevalence of the social old-age pension and disability grants and the absence of viable alternatives may explain why stigma is not such a factor in South African take-up rates.

The means test takes into consideration the material means available to potential recipients in determining both *whether* they should receive benefits and *what level* of benefits they should receive. Means-tested schemes have been criticised for failing to reach all who are eligible and for involving high marginal rates of taxation (Atkinson 1983:268). Further problems stem from the nature of South African society and the forms income and wealth take:

Forms of wealth are different in different situations. How can access to land, housing, cattle or other resources be evaluated when it is achieved by communal tenure at some times and by freehold or individual tenure at others? What is the relevance of a test based largely on income from employment in a society where the majority have never had formal employment, and only a small percentage of those who have had such employment receive occupational pensions? Who will make these valuations in a society in which the majority of the aged are illiterate, and their lives unrecorded in terms of assets, income, investments, employment or taxation? Is it suggested that means should be raised to the white level or lowered to the black? The moral and practical arguments against the means test are compelling, despite the financial implications of abolishing it (Ardington & Lund 1995:22).

Before further discussion, it is necessary first to clarify some concepts, taking as point of departure the use of these terms in South African regulations or, where appropriate, in the international literature on social assistance. Means tested social assistance benefits are often provided on a sliding scale. As *private or pre-grant income* increases above a certain minimum level (the *disregard or threshold income*), the benefit level decreases (a *clawback or effective marginal tax rate*), until a point is reached where no further benefits are paid (the *exclusion or cut-off level*). Moreover, assets can also be considered, e.g. by imputing a deemed income from assets and adding this to pre-grant (private) income from other sources. Further, the means test introduced in 1996 excluded income from certain sources, e.g. subsistence agricultural income was also part of the disregard. Similarly, the treatment of residential assets should be seen in conjunction with the disregard, for such assets are also often disregarded in means testing.

This paper starts out by providing a brief overview of the problems of the racially differentiated means tests under apartheid, moves on to the changes introduced in the new unified means test of 1996, contrasts the application of the means test with the means test as it exists on paper, and then explains the rationale behind the new means test of 1998. Only then does it turn to future issues.

2. PROBLEMS OF THE APARTHEID MEANS TESTS

The apartheid means tests (pre-1996) were relatively more complex than their successors. Regulations pertaining to social assistance had become increasingly heterogeneous in the three administrations of the former tricameral parliament, the four old provinces that administered welfare for blacks outside the homeland, the six self-governing homelands and the nominally independent TBVC homelands (Transkei, Bophuthatswana, Venda and Ciskei). Accordingly, there were a number of means tests rather than one, although with many common elements reflecting their common ancestry. There was a disregard which in practice approximated to 30% of the

maximum benefit level. Beyond this income level, every rand of income earned led to an equal reduction in the benefit level, i.e. the marginal tax rate in this income range was 100%. The pension was paid in discrete amounts of R10, but in 1992 amounts smaller than R90 per month in the case of whites were not paid out, implying a cut-off level of private income of R4 140 per annum or R346 per month above which no pension was paid (see Table 1). Married applicants were treated similarly, except that the combined income and assets of the couple were taken into consideration and the total divided by two. Given economies of scale for larger households (i.e. two people living together can do so more economically than two separate individuals)⁴, this regulation favoured married couples with some earnings above their single counterparts.

To show eligibility, elderly or disabled applicants for social pensions had to provide a detailed account of all their sources of private income and their assets, to be "*confirmed by a person familiar with the applicant. In rural areas this may be the Induna (headman) or tribal elder, who must accompany the person to the district pension office*" (Legal Resources Centre 1987:14). If such income (including the deemed income from assets) fell below the exclusion level⁵, such persons qualified to receive a pension. To receive the full pension, though, their income had to fall below the threshold level. Beyond this threshold, a sliding scale applied whereby increases in income or deemed income led to a reduction in the grant paid. In practice this marginal "tax" rate or clawback in the pension for all increases in private income amounted to 100 per cent (80 per cent for blacks), versus 50 per cent in Australia and 20 per cent in New Zealand (Mouton Committee 1992:47).

Under apartheid, both maximum grant levels and the means test differed between race groups. For instance, in 1986 the situation was as presented in Table 1 and Figure 1 for the four race groups outside the homelands and for blacks in one of the homelands, Kwazulu. In 1992 the Mouton Committee (1992:85) commented that "*[i]t is clear that the 'means test' continues to discriminate on racial grounds ... in other detailed applications of the rules as well*".

Table 1 and Figure 1 show how the blunt use of a means test led to a typical "poverty trap".⁶ We shall illustrate this by explaining the graph for whites. Up to the lower threshold of R1 000, all increases in income accrued to the individual, but once the lower threshold was reached, increases in private income merely led to a commensurate reduction in the social pension, thus leaving post-pension income unchanged. Beyond the exclusion level of R2 375, the pension dropped away altogether, with the effect that the last rand of private income earned precipitated a large drop in the well-being of the individual up to the diagonal line. For any private income beyond this level, post-grant income was the same as private income, i.e. as shown by the diagonal line.

In both 1986 and 1992 blacks experienced the sharpest relative income drop at the exclusion level, even though their pension levels were less than those of other groups. But most homelands had for all practical purposes abolished the application of the sliding scale or clawback, although retaining it in their regulations; they argued that it proved too difficult to implement and to explain to the elderly (Lund 1993:16). In these cases the full pension was paid up to the exclusion level. Consequently this drop was most severe in the homelands. Thus Figure 1 and Table 1 show that Kwazulu pensioners in 1986 experienced a 68 per cent drop in their income once their private

4 For the only proper empirical work on converting South African household income into adult equivalent income, based on such economies of scale, see Woolard & Leibbrandt 1999.

5 The exclusion level in fact derived from the benefit level, the threshold level and the clawback, as will be illustrated later.

6 In this regard, see Le Roux (1991: Sections 1.2 and 2.2) and Sephton *et al.* (1990: Annexure). Lund (1992) discusses in some detail the problems experienced with means testing in practice.

income exceeded the exclusion level. Though less severe outside the homelands, the poverty trap was nevertheless a serious problem in 1986, as Figure 1 graphically illustrates.

Table 1
THE RACIALLY DIFFERENTIATED MEANS TESTS, 1986 AND 1992 (IN ANNUAL VALUES)

	Whites	Coloureds & Indians ^a	Blacks outside homelands	Blacks (Kwazulu)
October 1986:				
Disregard (Threshold income)	R1 080	R540	R271	None
Maximum grant	R2 376	R1 764	R948	R1 164
Effective marginal tax (clawback) ^b	100%	100%	100%	100%
Exclusion level (cut-off): Assets	R42 000	R28 000	No test	No Test
Exclusion level(cut-off): Income	R2 376	R1 380	R756	R540
Income (including grant) before drop-off	R3 456	R2 304	R1 435	R1 703
Drop-off ^c	R1 080	R924	R679	R1 164
Drop-off as % of income	33%	40%	47%	68%
April 1992:				
Disregard (Threshold income)	R1080	R1080	R900	..
Maximum grant	R4 140	R3 816	R3 516	..
Effective marginal tax (clawback) ^b	100%	100%	80%	..
Exclusion level (cut-off): Assets	None	None	None	..
Exclusion level(Cut-off): Income	R4 140	R3 816	R3 072	..
Income (including grant) before drop-off	R5 220	R4 896	R4 850	..
Drop-off ^c	R1 079	R1 068	R1 764	..
Drop-off as % of income	21%	22%	37%	..

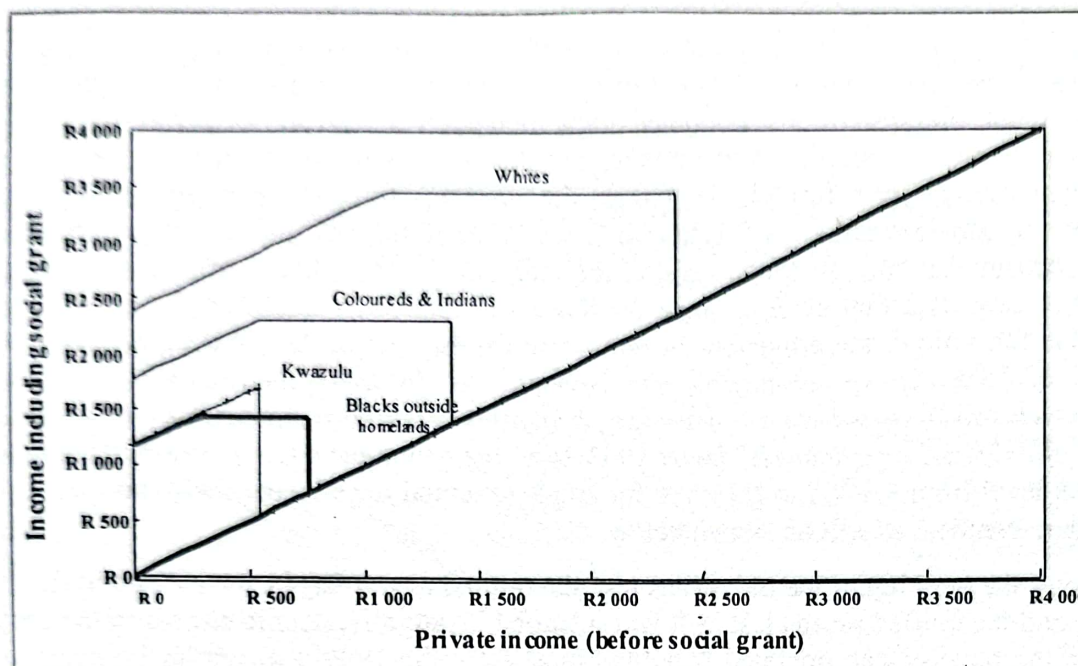
a Though separately administered, the same rates applied to Coloureds and Indians.

b Between disregard and exclusion level.

c The *drop-off* is the loss in income associated with a R1 gain in private income that takes the recipients past the exclusion level.

Sources: Legal Resources Centre. 1987. *Social pensions in South Africa*. Durban: Legal Resources Centre: 6-7, Annexure 1; Mouton Committee, 1992. *Report of the Committee of Investigation into a Retirement Provision System for South Africa*. Johannesburg: 82-83.

FIGURE 1
THE MEANS TEST IN 1986: PRIVATE INCOME VERSUS INCOME INCLUDING
SOCIAL GRANT



The poverty trap is a well known feature of all means-tested benefit systems (cf. Atkinson 1983:266 *et seq.* on the “rise and failure of means testing” in Britain). Accordingly, administration of the means test is crucial as it determines both eligibility and the value of benefits. This creates an administrative nightmare for officials administering the system, while encouraging concealment of income or creating a disincentive to earn income or to provide for retirement, which affects behaviour regarding occupational and private pensions: “(The means test) discriminates against those who do make provision for their own retirement needs. The impact is particularly acute at low income levels where it acts as a serious disincentive to saving or continuing to work” (Mouton Committee 1992:85). The simplification of the means test introduced by the homelands only deepened the poverty trap at the exclusion level.

Though changes to the means tests between 1986 and 1996 had made the system more complex and reduced racial disparities, its structure remained essentially unchanged. Changes in exclusion levels and in racially defined benefit levels excluded more elderly white people from receipt of social pensions, but included more blacks.⁷ In 1992 the marginal “tax” rate for blacks outside the homelands was reduced to 80 per cent: for every R75 that private income exceeded the threshold level, the pension was reduced by only R60 (up to the exclusion level). An addition was that 8 per cent of the value of assets above a certain level was deemed to be income, and that a value was attached for this purposes to housing. The value of a house for calculation of deemed income was usually set quite low, however, so as to leave owners of modest homes unaffected. The Mouton Committee (1992:615-622, Annexure G5) provides details of the operation of the means test in April 1992.

The Mouton Committee (1992:15) recommended reducing the pension clawback to 50 per cent, and also that only 50 per cent of occupational and private pensions should be included in the

⁷ As the means test is linked to benefit levels, changes in the latter have an impact on both eligibility and benefits.

calculation of private income, which implied a 25 per cent rather than a 100 per cent clawback on income from private and occupational pensions over a certain range.

3. IMPACT OF THE UNIFIED MEANS TEST

In 1996 the apartheid means tests were replaced by a new common set of regulations. Implementing these new uniform regulations was not unproblematic; as will be shown, components of the old system still pervaded implementation of and views pertaining to social assistance. The Mouton Committee's recommendations were only partly incorporated into the new uniform regulations: the new formula did reduce the clawback from 100 per cent to 50 per cent, thus considerably ameliorating the poverty trap. Thus every additional one rand of private income reduced the pension by only 50 cents, leaving the recipient 50 cents better off. This reduced the disincentive to earn over that income range for those who otherwise qualified for a social grant, whether in the form of private provision for retirement (in the case of the elderly), or, particularly for the disabled, by accepting low-paying jobs. However, as "[h]alving the tax rate, like doubling the benefit level, raises costs both by increasing benefits to existing recipients and by increasing the number of potential beneficiaries" (Barr 1993:249), the new means test as promulgated raised the exclusion level from R6 708 to R13 416 for single potential beneficiaries with no assets. This was more than intended, as will be shown below.

Figure 2 shows the working of the old means test, the unified means test as formulated in the 1996 regulations, and the unified means test as it was intended.⁸ Naturally, people closest to the income range where the poverty trap operated benefited most from the 1996 changes in the means test; moreover, the reduced disincentive to earn private income presumably also most encouraged this group to earn additional income. Around the old exclusion level for single pensioners of just over R6 500, the new formula increased their post-grant income by up to one third. For married pensioners this effect operated similarly at around R13 500 of combined income.

From the point of view of individual incentives the changes in the means test did indeed make sense. However, the rapid increase in take-up after the new regulations were introduced raised fiscal concern in government circles, as it was unclear to what extent this resulted from better coverage and administration or from increased eligibility due to the higher exclusion level. The new unified formula also meant that many earning relatively low private incomes became eligible for larger grants than before.

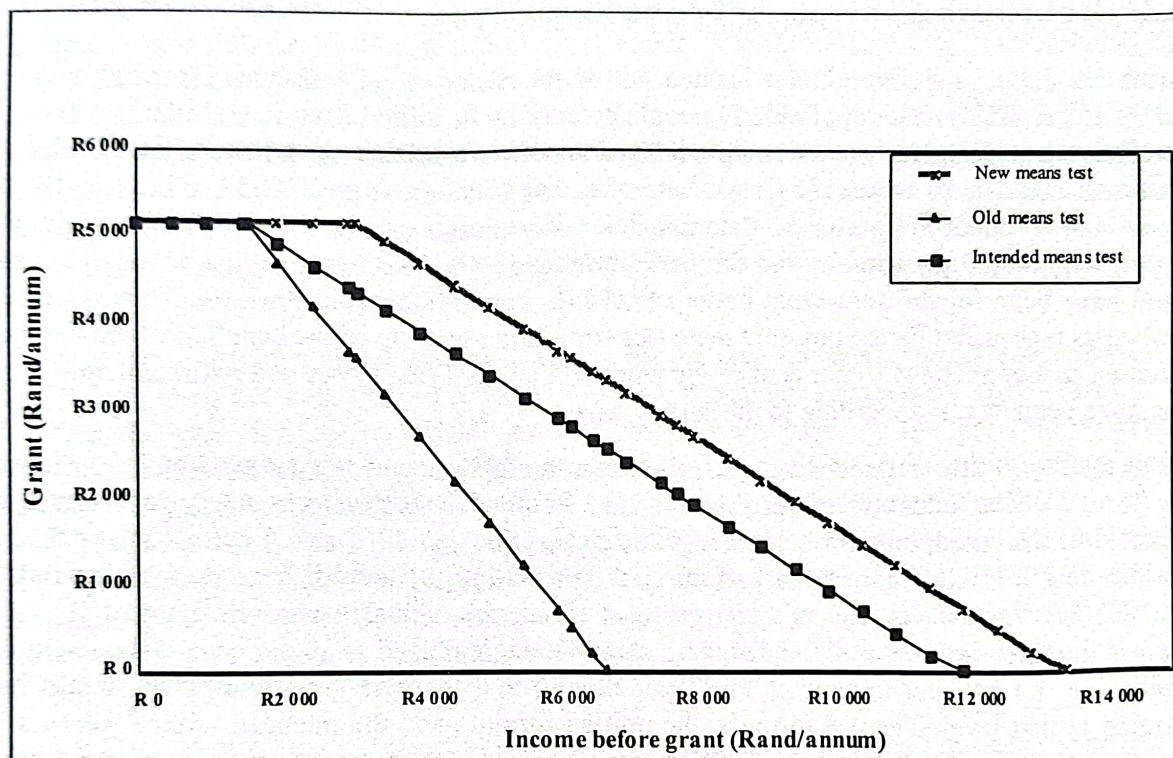
Data based on the Living Standards and Development Survey (LSDS) of 1993, adjusted to 1996 population and price levels, show that the great majority of elderly people had very low pre-grant incomes. In fact, only amongst the white elderly did more than one-quarter (61%) have a pre-grant income per person⁹ exceeding R900 per annum in 1996 figures (see Table 2). A substantial proportion of elderly whites had relatively high private incomes: almost 30% earned more than R24 000 per elderly person per annum, which presumably came mainly from occupational or

⁸ More details were also included in 1996 on the valuation of income and assets, which lessened somewhat the bias in favour of assets. However, for present purposes we shall confine ourselves to the income part of the means test.

⁹ For couples, this income was calculated as half the combined income of the elderly couple, in line with the treatment of couples by the means test. The definition of income worked with here was all private sources of income (i.e. excluding social grants), excluding subsistence agriculture and informal sector income, net of deductions from wages for taxes, UIF contributions, etc. Using gross rather than net remuneration figures increases the mean income of the elderly by only 2 percent and the frequency distribution hardly at all, indicating that for most of this age group, this distinction is negligible. Amongst the working age, income based on gross rather than net remuneration is 38 per cent higher, reflecting the fact that deductions at work play a significant role here. However, for the sake of consistency, all figures are shown as net after deductions.

private pensions and earnings from accumulated savings. As occupational retirement insurance (pension and provident funds) had largely excluded previous cohorts of black workers, many retired with little private provision for retirement. Moreover, as poor workers would have gained little from private provision for retirement (it would not have placed them in a much better position than the full social old-age pension), this reduced their incentive to provide for retirement. Thus few black people, particularly, had enough private retirement income to be independent of state means of support in old age.

FIGURE 2
GRANTS TO SINGLE PERSONS WITHOUT ASSETS UNDER THE OLD, THE NEW, AND THE INTENDED NEW MEANS TEST



For our purposes, the changes in the means test can be discussed over four income ranges for a single person without assets (see Figure 2). (For married persons, the income categories double.) The following discussion is mainly directed at social old-age pensions, though the principle can also be extended to disability grants.

- **Category A:** Up to R1 548 of annual private (i.e. pre-grant) income for a single person without assets, the full grant remained payable as before. Interpolating from Table 2, approximately 82,7 per cent of the elderly fell into this category.
- **Category B:** For annual income between R1 548 and R6 708, the grant value increased because of the reduced clawback. Some 6,4 per cent of the elderly may have been in this category in 1996 (Table 2). Those with private income below R3 096 even became eligible for the full grant.

- **Category C:** Between R6 708 and R13 416 per annum, no grant had been payable before, but a reduced grant became payable in 1996. About 3,7 per cent of the elderly may have been so affected.
- **Category D:** Above R13 416 per annum, no grant had been payable before and this position remained unchanged in 1996. This applied to about 7,2 per cent of the elderly.

Given a log-normal frequency distribution around extremely low median income levels, by far the largest proportion of the elderly fell into Category A. Thus most elderly people were unaffected by the 1996 changes to the means test, viz. those in Category A, who remained fully eligible, as well as those in Category D, who remained non-eligible. Together, these two categories covered about 89,9 per cent of the elderly. In Category B, on the other hand, the benefit increased, while Category C contained people newly eligible for a reduced grant.

Thus the new means test could have influenced fiscal costs of social assistance for the elderly only moderately, as only one tenth of elderly people potentially benefited from it. Calculations based on the survey data (with no provision for deemed income from assets) indicate that the changed means test could have increased fiscal costs of social pensions from R9 558 million to R9 921 million, i.e. by about 3,7 per cent, assuming full take-up amongst the eligible. This accords with the cost magnitude predicted by the Smith Committee (1995:44.) Most of this potential increase would have been for the somewhat better-off elderly population, mainly whites. This increase in fiscal costs is dwarfed by the possible increases from fuller take-up of the benefits, which had been estimated earlier at about 10 per cent of the elderly (Van der Berg 1994a & 1994b) and which may even have been larger, according to the survey data.

It is necessary at this stage to distinguish between the 1996 means test formula and the *intended* new formula. The intention of the Mouton and Smith Committees was never to increase the threshold or disregard, but purely to change the slope of the benefit curve. Figure 2 shows that the way the new formula was written had implied a swivelling of the old benefit curve around the point R6 708 on the vertical axis (30 per cent above the annual maximum grant of R5 160), whereas the intention was that the disregard should have remained at 30 per cent of the maximum benefit (i.e. R1 548 per annum or R127 per month) and that the lower clawback should have operated at that level. The old formula, the unified formula and the intended unified formula are all reflected in Figure 2, based on 1996 values. It can be seen that the new means test formula provided greater benefits than intended over a large range and in addition increased the cut-off level from the intended R11 868 to R13 416.

The unified 1996 formula was the following:

$$D = 1,3A - \frac{1}{2}B - 0,08X$$

subject to $D \leq A$

Grant value = Maximum grant

plus 30 per cent of the grant value,

minus half of income

minus deemed income from assets (8 % of their value)

subject to a maximum not exceeding the maximum grant.

The intended formula rather was:

$$D = 1,15A - \frac{1}{2}(B + 0,08X),$$

subject to $D \leq A$

Grant value = Maximum grant

plus half of 30 per cent of the grant value,

minus half of income

minus half of deemed income from assets (8 % of their value)

subject to a maximum not exceeding the maximum grant.

A simple example illustrates the difference. Given a maximum grant of R5 160 (the 1996 figure), an elderly person with an income of R6 000 per annum and no income from assets would have qualified for a grant of R708 per annum according to the old formula, for R2 934 under the intended new formula, and for R 3 708 under the (erroneous) new formula. Although the reduced clawback (the intended change) thus caused most of the gain in income for such a beneficiary, there was an unintended increase of R774 per annum in the benefit due to the wrong formulation of the formula. Moreover, not halving deemed income as intended (see the grant formula above) may have disadvantaged beneficiaries with assets rather than private income, for in effect the full 100 per cent clawback still operated on deemed income.

In terms of the actual fiscal consequences of the means test, however, one should compare the post-1996 situation not with the old formula, but with the actual situation prevailing before. The new formula was indeed beneficial to people formerly served by the old tricameral administrations, but for many or perhaps even most people in Category B above, the clawback had never been applied, as homeland pensioners with an income above the threshold level had nevertheless received the full pension. Strict application even of the erroneous 1996 means test should have *reduced* their actual benefits. Thus proper application of the 1996 means test everywhere should have implied that increased fiscal costs where the sliding scale had formerly operated should at least in part have been compensated by decreased fiscal costs where the sliding scale was applied for the first time.

Category C could also have created fiscal problems if the sliding scale had not been applied. The increase in the exclusion income brought new pensioners onto the roll. People who before did not qualify for benefits should have been receiving on average perhaps about two-thirds of the full benefit under the new formula. If the full grant rather than a reduced grant was incorrectly paid to these pensioners, this may further have increased the costs to the state. Moreover, these are less poor people than those eligible for the full pension.

TABLE 2
FREQUENCY DISTRIBUTION OF THE NET INCOME OF THE ELDERLY, 1996
ESTIMATE BASED ON 1993 DATA (RAND PER ANNUM)

Income range	Total	Black	Coloured	Indian	White
R0 – R900	1 755 014	1 504 366	105 168	27 621	117 858
R901 – R1 800	33 941	29 834	3 065	0	1 042
R1 801 – R2 700	23 372	21 329	2 044	0	0
R2 701 – R3 600	27 984	21 321	2 044	973	3 646
R3 601 – R4 500	14 974	7 404	3 924	0	3 646
R4 501 – R5 400	32 826	19 204	3 065	1 819	8 737
R5 401 – R6 300	24 272	13 050	4 972	0	6 250
R6 301 – R7 200	11 311	5 081	1 022	0	5 209
R7 201 – R8 100	13 655	5 996	2 972	0	4 687
R8 101 – R9 000	5 608	3 023	1 022	0	1 563
R9 001 – R9 900	18 988	9 993	0	1 819	7 175
R9 901 – R10 800	16 159	7 886	3 065	0	5 208
R10 801 – R11 700	5 012	2 004	0	0	3 008
R11 701 – R12 600	9 089	5 963	0	0	3 126
R12 601 – R13 500	4 954	3 391	0	0	1 563
R13 501 – R14 400	6 468	2 004	0	0	4 464
R14 401 – R15 300	14 461	3 003	0	0	11 459
R15 301 – R16 200	2 993	0	0	910	2 083
R16 201 – R17 100	4 167	0	0	0	4 167
R17 101 – R18 000	1 563	0	0	0	1 563
R18 001 – R18 900	4 715	938	884	0	2 892
R18 901 – R19 800	1 967	0	0	0	1 967
R19 801 – R20 700	6 827	1 097	0	0	5 730
R20 701 – R21 600	3 180	1 097	0	0	2 083
R21 601 – R22 500	1 563	0	0	0	1 563
R22 501 – R23 400	6 860	960	0	0	5 900
R23 401 – R24 300	2 189	1 147	0	0	1 042
Above R24 300	96 541	3 201	1 880	1 819	89 641
Income unknown	14 165	5 891	3 065	0	5 209
Total	2 164 818	1 679 183	138 192	34 961	312 481
Mean annual income	R 3 108	R 648	R 1 596	R 3 012	R 16 968
Total annual income	R6 675m	R1 086m	R216m	R105m	R5 214m

Note: Small sample size makes the Indian figures less accurate

Source: Calculations based on the LSIDS¹⁰

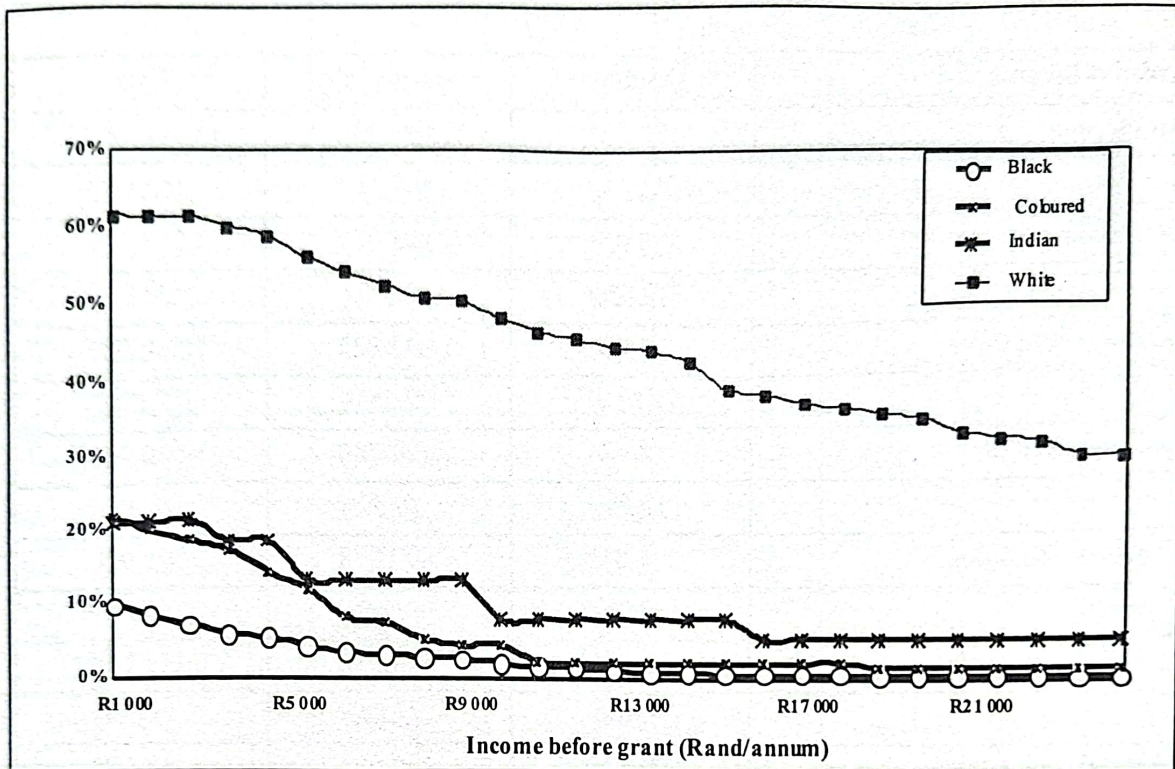
10 I am grateful to Dirk Haarman for the calculations from the 1993 survey.

TABLE 3
FREQUENCY DISTRIBUTION OF INCOME OF THE WORKING AGE POPULATION
(MALES 16-64, FEMALES 16-59), 1996 ESTIMATE BASED ON 1993 FIGURES

Annual income	Disabled	Non-disabled	Total
No income	133 564	15 007 223	15 140 787
	(92,2%)	(66,4%)	(66,5%)
R1-R6 000	5 055	1 968 859	1 973 914
	(3,5%)	(8,7%)	(8,7%)
R6 001 - R12 000	3 002	1 645 822	1 648 824
	((2,1%))	((7,3%))	((7,2%))
R12 001-R18 000	2 194	1 424 746	1 426 940
	(1,5%)	(6,3%)	(6,3%)
R18 001 - R24 000	1 042	897 878	898 920
	(0,7%)	(4,0%)	(3,9%)
R24 001 – R30 000	0	424 918	424 918
	(0%)	(1,9%)	(1,9%)
R30 001 - R36 000	0	347 093	347 093
	(0%)	(1,5%)	(1,5%)
R36 001 – R42 000	0	217 865	217 865
	(0%)	(1,0%)	(1,0%)
R42 001 - R48 000	0	202 218	202 218
	(0%)	(0,9%)	(0,9%)
R48 001 – R54 000	0	113 625	113 625
	(0%)	,5%	,5%
R54 001 – R60 000	0	51 883	51 883
	(0%)	(0,2%)	(0,2%)
Above R60 000	0	314 323	314 323
	(0%)	(1,4%)	(1,4%)
Income unknown	0	5 796	5 796
Total	144 857	22 622 249	22 767 106
Mean annual income	R 684	R6 180	R6 144
Aggregate annual income	R99,5m	R139 680,7m	R139 780,1m

Source: Estimates based on LSIDS.

FIGURE 3
PERCENTAGE OF ELDERLY BY RACE ANNUALLY EARNING MORE THAN
CERTAIN LEVELS BEFORE GRANT, 1996 ESTIMATES



4. A NOTE ON THE DISABLED

Table 3 shows the frequency distribution of income before social assistance of both the disabled and others of "working age", here taken to be the age range above 15 and before eligibility for old-age pensions. Note, however, that the question on disability in the survey elicited an extremely low response, perhaps because it was interpreted more strictly than the disability criteria used in the social grant regulations, so that the disabled population covered in this sample is only about one-fifth the size of those who receive disability pensions.¹¹ It is probable that most who indicated physical disability in this survey were the more severely disabled, whose income-earning opportunities were presumably below average for all disabled people. The real economic situation of those qualifying for disability grants may then be a little less gloomy than shown here.

According to Table 3, the mean income of the disabled was R684 per year, compared to R6 180 amongst those not reporting physical disability in the survey: a ratio of 1:9. Clearly, very few of the (severely?) disabled or their spouses had adequate financial means.¹² To a large extent this can be ascribed to the fact that 92 per cent of disabled reflected in this survey had no private income at all, as against only 66 per cent of those not disabled in the same age category. Considering only

¹¹ In contrast, recent estimates based on survey data and the census of Statistics South Africa show very high levels of disability; the formulation in this case may have elicited abnormally high responses, thus still leaving us in the dark about the prevalence of disability in South Africa. A dedicated survey may be required to arrive at credible figures.

¹² In cases where disabled people had a spouse, their combined income was again halved to determine income, as in the means test.

those earning some income (i.e. 8 per cent of the disabled in this sample), disabled earners received about R8 000 per year as against about R18 400 for non-disabled earners. Without considering spouse's income, considerably more than 90 per cent of all the disabled on this sample would have qualified to receive the full social pension. However, the material situation of the less severely disabled may have been somewhat better than reflected in these figures. Nevertheless, as for the elderly, it appears that so many of the disabled were poor that most should qualify for the full pension and would not have been affected by the sliding scale and exclusion level. This is understandable, given the difficulty for disabled people finding jobs in a country with high unemployment.

Abolition of the means test for the disabled, giving all the full social grant, would increase the fiscal burden in four ways:

- Fewer disabled people would then be excluded from receiving such grants because of incomes above the present exclusion level.
- Disabled people with limited private income who presently qualify for a reduced grant only would then receive the full grant. The numbers concerned and the fiscal cost will be limited, considering pervasive poverty amongst disabled people.
- Because the stigma effect of the means test and uncertainty about its operation would be reduced, potential beneficiaries presently hesitant to claim may be less reticent, thus perhaps increasing take-up rates.
- The cost of the first and third categories is likely to be higher than that of the second, but the immediate fiscal costs may still not be prohibitive. However, a universal grant for the disabled may cause more people who are borderline cases in terms of the disability criteria laying claim to such grants, increasing pressure on the administration of the disability criteria, particularly if employed people with limited disabilities perceive the grant to be a full *additional* source of income that does not require giving up their work. The potentially large fiscal costs of this have to be seen against its beneficial effect in reducing the marginalisation of the disabled in the labour market.

Table 4 summarises the situation with regard to the means of the elderly, the disabled and the comparable working age population.

5. SHOULD THE MEANS TEST BE ABOLISHED?

The ageing of the black population increases the demand for social pensions, but on the other hand increases in black post-retirement private income are lifting more retired people above the pension cut-off level, and many now only qualify for reduced grants. This would decrease the costs but increase the difficulty of administering the means test. This cannot be avoided completely by redesigning the sliding scale alone, as the poverty trap is actually rather more severe than the marginal tax rate alone indicates. The reason is that benefits from provident funds can be consumed or invested in residential assets, leaving recipients again dependent on the state for a social pension, but better off than those who did not have such private provision. The relatively poor, who only wish to maintain a modest lifestyle and who cannot make substantive provision for retirement, have no incentive to behave in a way that would give them anything less than a full social pension.

Based on the data presented above, which may admittedly somewhat underestimate income and exclude deemed income from assets that also reduced eligibility, there was close to universal eligibility in 1993 for the social old-age pension, except for about one tenth of the elderly

population, mainly white pensioners with substantial private pensions. Although take-up rates are still substantially lower, this may appear to offer strong grounds for abolishing the means test in favour of a universal grant,¹³ thereby avoiding the problems attached to means testing. This would transform the present means-tested social old-age pension into a categorical income transfer, removing at one stroke all the perverse incentives relating to its poverty trap aspects. This concern led the Mouton Committee, the Smith Committee and later the National Retirement Forum also to consider abolishing the means test and extending social pensions to all elderly persons irrespective of income. However, all three bodies concluded that such a universal old-age grant would not be fiscally affordable. The fiscal problem lies not so much in the initial costs of expanding the system, but in demographic dynamics which mean that the numbers of people of pensionable age grow more rapidly than the economy and fiscal resources do (IMF 1995). Extending the social pension to all would also be distributionally regressive, as it would reduce the current progressivity of such social pensions. Moreover, as about 90 per cent of new beneficiaries would be whites – precisely those who could and did make most private provision for retirement – a universal old-age grant would in this respect run counter to the imperatives of racial redistribution in South Africa.

TABLE 4
THE ELDERLY AND WORKING AGED: NUMBERS AND ANNUAL NET INCOME
BEFORE SOCIAL GRANTS, 1996 ESTIMATE BASED ON 1993 DATA

Elderly: (males 65+, females 60+)	Numbers	Mean annual income
White	312 481	R 16 969
Coloured	138 192	R 1 600
Indian	34 961	R 3 017
Black	1 679 183	R 649
Total	2 164 818	R 3 104
Couples (per person)	694 997	R 5 995
Singles	1 469 822	R 1 736
Working age: (males 18-64, females 18-59)		
Disabled	144 857	R 687
Income-earners in this category	11 293	R 8 810
Non-disabled	22 622 249	R 6 176
Income-earners in this category	7 609 230	R 18 357
All	22 767 106	R 6 141
Income-earners	7 620 523	R 18 343

Considering all these factors and the opposition likely against such a step on fiscal grounds as well as on the grounds of the reduced progressivity (less targeting) implied by a universal grant, the time may not be ripe yet for such a universal grant. However, the focus of the means test should increasingly fall on "cutting down the tall poppies", the way the means test has been applied in Australia (a country that has taken means testing to great lengths). This implies a focus on ways of

¹³ Note that the argument here is confined to the elderly; for the disabled, somewhat different considerations come into play, as will be shown below.

excluding the relatively wealthy, rather than the use of the clawback or sliding scale to fine tune grants to means. This is particularly pertinent in the face of the almost impossible task of regularly reviewing eligibility and material means of 3 million social grant holders, providing for inflation adjustments, and ensuring that the information provided by applicants is accurate. Attention should shift to information aimed at excluding the non-eligible (less than one-sixth of the population) rather than information needed to include the eligible (five-sixths). It is these considerations which prompted some of the recent amendments and additions to the means test.

6. THE NEW (AMENDED) MEANS TEST OF 1998

Amendments to the 1996 means test were incorporated into the 1998 means test. A number of factors were considered in this regard:

- The deemed or imputed value of assets is no longer used, but income actually generated from assets is rather regarded as part of income for purposes of assessing eligibility and rates of benefits. This eases administration, as it is exceedingly difficult to ascertain the value of assets and very few applicants have enough assets that substantially affect benefit levels and therefore warrant much attention.
- An exclusion level for assets (including residential assets) was re-introduced. All single applicants owning residences or other assets with a market value of 30 times the maximum benefit (R224 640 based on 1999 grant levels of R520 per month) or married couples who own homes or other assets worth 60 times the maximum benefit (R449 280) are automatically excluded from any benefit, unless they can show cause why such residence or assets should not be considered adequate means to provide for their retirement (e.g. where there are very large bonds on such residences.) This is in line with the recommendation in the Smith Committee (1995:44) that the value of the residence should not be totally excluded from the means test and with the practice in many OECD countries to consider the value of the residence as a proxy for material means.
- The disregard of 30 per cent of the maximum benefit level that had applied in the past and that was also intended with the new unified formula was reintroduced. Fewer than half a dozen OECD countries have a disregard that exceeds 40 per cent of the benefit payable (cf. Eardley *et al*, 1995: Table 3.2, 73), while a too small disregard would lead to many receiving reduced grants and would have made greater demands on accuracy of the information to apply the sliding scale.
- Given the increased fiscal costs associated with the higher cut-off level (Category C beneficiaries) and suggestions from provinces that pensions below a certain minimum should not be paid because of prohibitively high administrative costs compared to grant value, the exclusion level was lowered. This excludes some less poor people who formerly qualified for small grants from social grants and also reduces the administrative costs of the grants. The exclusion level was thus set at a level of one and a half times the maximum grant, i.e. at private income of R9 360 in 1999, which means that no grants smaller than R208 per month are payable. Again, Australia is one other country that has such a cut-off level (Eardley *et al.*, 1994). This implies a reduction of 21% in post-pension income for those at this exclusion-level private income, a high but tolerable drop-off in income when considering that these are people whose pre-grant income is already 1½ times the maximum pension and that few elderly people fall in the income range where they are affected by such a poverty trap.

The fiscal implications of the various changes to the means test can be judged from the following fiscal costs for pensions for the elderly, based on the net income figures of the LSDS and based on

1996 population and Rand values, *assuming full take-up* and excluding the impact of deemed assets or housing:

Old 1992 formula	R9 558m
New 1996 formula	R9 921m
Intended 1996 formula	R9 818m
New 1998 means tests with exclusion level at 1,5 times maximum benefit	R9 756m

Reverting to the intended 1996 formula should bring about a saving of some 1 per cent on pensions for the elderly, and the introduction of the cut-off level of 1½ times the maximum benefit reduces the fiscal cost another 0,7 per cent.¹⁴ In overall terms, this still leaves the costs of provision for all the elderly under the 1998 amended means test some 2,1 per cent higher than under the old pre-1996 formula, based on an unchanged population and income distribution. (It is unlikely that the housing assets exclusion level would play any large role in determining eligibility.) From a fiscal perspective, higher take-up is more problematic than the changes in the means test, but this is largely managed on an *ad hoc* basis by considering this in annual adjustments to grant levels.

Simply stated, the 1998 means test for a single person thus operates as follows:

$$D = 1,15A - \frac{1}{2}B,$$

subject to $D \leq A$,

$$D = 0 \text{ if}$$

$$(1,15A - \frac{1}{2}B) < R100$$

or

$$H > 30A$$

and where B in this case includes income from assets.

In words,

Grant value = Maximum grant

plus 15 per cent of the grant value,

minus half of income (including actual income from assets)

subject to

- *a maximum not exceeding the maximum grant*
- *no grant of less than R100 being paid*
- *no-one with total assets above 30 times the maximum annual grant receiving any benefits.*

¹⁴ The actual exclusion level in the means test was somewhat different from this recommendation, and would have increased marginally the fiscal cost

In practice, the information obtained from pensioners is in a very parlous state indeed. No annual reviews are done; this would be onerous, for there are altogether some 3 million grant holders of all kinds in South Africa, and reviewing their incomes annually is beyond the capacity of the social security system. Moreover, there is no uniformity in the way provinces adjust pension levels annually, nor in the extent to which they really apply the means test.

In the new regulations, the threshold income and exclusion level for housing assets are expressed in terms of the maximum grant level, announced annually, whilst the the recommendations also contained a suggestion that this should be the case for the exclusion level, although this was not implemented. The advantage of expressing all values in such a form is that means no additional annual changes need to be announced, as other values would all change automatically with the announced grant level. To facilitate the adjustment of incomes, assets and benefits, a sliding scale could be made available to all provinces and administrative offices that categorises beneficiaries according to income, and the benefit attached to each category could be adjusted annually in accordance with the new maximum benefit. Thus, for instance, based on the income (including income from assets) of a beneficiary in 1999, he would be placed in a certain category (e.g. Level B5), and receive a commensurate grant. In 2000, the assumption, in the absence of any review of means, would be that he would be in the same income category (i.e. that his income would have risen with inflation), and he would receive the grant associated with that category in 1999. Thus all that is required is that a single schedule of income levels and associated grants be drawn up annually in the National Department of Welfare and distributed to all social security offices in the provinces; the next year, the grants associated with each income category would then change and be indicated accordingly. This still does not reduce the need for regular reviews, for beneficiaries' private income do not always change only with inflation. Regular reviews would ensure a far better association between private material means and social assistance grants.

There is also a need at national as well as provincial level to audit income levels as shown on the records to ensure that payments are commensurate with the formula. Without such a regular audit, there is room for fiscal waste in two respects:

- As provinces or individual administrators have no incentive to limit benefits to what people are eligible for, they may find it the easiest route to give everyone the full benefit;
- Where officials who pay out excessive benefits remain unpunished, there is scope for bribery and corruption.

7. IN CONCLUSION

The 1996 regulations regarding the means test were a considerable improvement in that they offered a single, unified and comprehensive means test for all South Africans potentially eligible for old age or disability grants. Moreover, in reducing the clawback or marginal tax rate that applied to private sources of income to 50% (still a high level), they made it less unattractive for affected persons to earn private income. However, there was one major error in the way the formula was promulgated, which implied that both the threshold level and the exclusion level were set higher than intended. It was shown in this article that the fiscal costs of this mistake were not as great as feared by some and that this error could not have been responsible for the rapid rise in pension claims. Reformulating the eligibility criteria to eliminate the error also offered the opportunity for some further refinements to the mean test, which were introduced in 1998.

REFERENCES

- ARDINGTON, E & LUND, F. 1995. *Pensions and development: How the social security system can complement programmes of reconstruction and development*. Development Paper 61. Midrand: Development Bank of Southern Africa.
- ATKINSON, AB 1983. *The economics of inequality*. (2nd ed). Oxford: Billing & Sons.
- BARR, N 1993. *The economics of the welfare state*. (2nd ed). London: Weidenfeld & Nicholson.
- EARDLEY, T; BRADSHAW, J; DITCH, J; GOUGH, I & WHITEFORD, P 1995. *Social assistance schemes in the OECD countries. Volume I: Synthesis Report. Final Draft*. Heslington: Social Policy Research Unit, University of York.
- EARDLEY, T; BRADSHAW, J; DITCH, J; GOUGH, I & WHITEFORD, P 1994. *Social assistance schemes in the OECD countries. Volume II: Country Reports. Draft*. Heslington: Social Policy Research Unit, University of York.
- INTERNATIONAL MONETARY FUND. 1995. *South Africa - selected economic issues*. IMF Staff Country Report No. 95/21. Washington, DC: IMF.
- KRUGER, JJ 1992. *State provision of social security: some theoretical, comparative and historical perspectives with reference to South Africa*. Stellenbosch: University of Stellenbosch. (MCom thesis).
- LEGAL RESOURCES CENTRE 1987. *Social pensions in South Africa*. Durban: Legal Resources Centre.
- LUND, FJ 1993. *State social benefits in South Africa*. *International Social Security Review* 46(1): 5-25.
- MOUTON COMMITTEE. 1990. *Draft situation analysis*. Mimeo. Cape Town.
- MOUTON COMMITTEE. 1992. *Report of the Committee of Investigation into a Retirement Provision System for South Africa*. 2 vols. Johannesburg: Government Printer.
- SMITH COMMITTEE. 1995. *Report of the Committee on Strategy and Policy review of Retirement Provision in South Africa*. Pretoria: Department of Finance.
- VAN DER BERG, S 1994a. *Social security and the alleviation of poverty*. Commissioned paper for the Development Bank of Southern Africa. Mimeo. Stellenbosch: University of Stellenbosch.
- VAN DER BERG, S 1994b. *Issues in South African social security*. Commissioned paper for the World Bank. Mimeo. Washington, DC: World Bank.
- VAN DER BERG, S 1996. *The means test for social assistance grants: Its application, fiscal risks and some recommendations*. Commissioned paper for Department of Welfare. Mimeo. Stellenbosch: University of Stellenbosch.
- VAN DER BERG, S & KRUGER, J 1995. *Fiscal prospects and options for the South African Welfare Vote*. Commissioned paper for the World Bank. Mimeo. Stellenbosch: University of Stellenbosch.
- WOOLARD, I & LEIBBRANDT, M 1999. *Measuring poverty in South Africa*. DPRU Working Paper 99/33. Cape Town: Development Policy Research Unit, University of Cape Town.