

# NEVA MAKGETLA: Use of pension funds to rescue Eskom is a viable option

For most workers, it would be worth sacrificing some future income to avoid retrenchment

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Eskom. Picture: REUTERS

Where you sit in society largely shapes how you see any policy. That truism has come to the fore again in the responses to the Cosatu proposal to use public service retirement funds to rescue Eskom.

For most working people it is the best chance to stabilise the electricity supply, save jobs across the economy and avoid cuts to social programmes. Yet many financial advisers and experts, whose fees largely depend on a booming stock market, have been unrelentingly hostile.

To understand this divergence requires, first, a review of Eskom's financial crisis and the options for a solution. A decade ago Eskom bet on gargantuan coal-fuelled plants, ignoring both newer, smaller-scale technologies and slowing electricity demand. To pay for them it raised its borrowing to R300bn in 2018, equal to a 10th of total public debt; doubled electricity prices in real terms; and delayed repairs on existing plants. Then Medupi and Kusile proved both late and faulty, plunging the electricity grid and Eskom's finances into crisis. In 2018 Eskom paid R25bn in interest and had a loss of R20bn.

Essentially there are four possible solutions to Eskom's financial crisis. It could

escalate electricity tariffs; go into business rescue; get a budget bailout; or, as Cosatu has proposed, let the Government Employees Pension Fund (GEPF) refinance its debt.

The first two proposals are likely to cause an economic crash, capital flight and large-scale job losses across the economy. Business rescue would necessarily disrupt the electricity supply, because major new generation needs years to come online.

Eskom itself wants double-digit electricity tariffs, but that is likely to bring a prolonged recession and close down much of heavy industry.

A government bailout would also cost workers dearly. It would necessarily squeeze spending on education, health care, policing, housing and social grants, which together absorb almost three-quarters of the budget. And it would add pressure to downsize public service employment and salaries.

The high cost of these alternatives makes refinancing by the GEPF look cheap. True, the loan to Eskom would probably be long term at relatively low rates. But the proposed bailout equals about 10% of the GEPF's assets, so the lower returns would be manageable. Moreover, because the GEPF is a defined-benefit fund, any shortfall in funding pensions would have to be covered by the state. And the government has introduced realistic measures to stabilise the electricity supply, reducing the risk of a default.

But the options have divergent implications for retirement fund members and for financial analysts. For most workers, it would be worth sacrificing some future income to avoid retrenchment and increase their children's chances of finding a job. In contrast, financial advisers have both a direct interest in increasing the returns on investments and a deep belief in the importance of maximising pension payments.

A comparison of the socioeconomic position of these two groups helps explain why they differ on the options for Eskom. On the one hand the average pay in the financial sector is among the highest in the country at R30,000 a month. They would not suffer unduly from cuts to public services. Moreover, most analysts have a tertiary degree, vastly reducing their chances of retrenchment.

On the other hand, the median member of an employment-based retirement fund earned just R7,000 a month in 2017. Two-thirds belonged to a union. For them, the biggest risk is that the Eskom crisis leads to mass retrenchments, so that they lose their jobs long before retirement or end up having to support their adult children from their pensions.

There is no easy solution here, but before scaremongering about a GEPF bailout it would help to consider both the cost of the available alternatives and the circumstances facing retirement fund members.

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