

# 7

## Social security and health care financing

The past year has provided the social security system with its sternest test yet. The recession forced a large number of people out of work, causing unemployment claims to nearly double in the space of a year and reducing household income for millions of South Africans. There has also been a significant increase in the number of people claiming social grants, owing to the deterioration of the economy and to the extension of the child support grant.

Broad social security reform is proceeding along several tracks. The social assistance and social security agencies, from the Unemployment Insurance Fund to the South African Social Security Agency, are examining ways to streamline administration, align systems and improve access to services. A no-fault insurance arrangement covering road accidents is being prepared. Government is also working to design a universal savings arrangement, and to prepare the ground for national health insurance.

### ■ The impact of recession

The social security system provides a safety net in the face of economic decline and played an important role in cushioning the impact of last year's recession. Social grants protected incomes for the most vulnerable sectors of society – such as the elderly, the disabled and children in need – while the Unemployment Insurance Fund (UIF) provided benefits to many workers who lost their jobs. Expenditure on grants is set to increase from 3.2 per cent of GDP before the crisis to 3.5 per cent in 2010/11. Government recognises that social assistance alleviates poverty and reduces inequality, and is therefore expanding the grants system by extending the *child support grant* to a recipient's 18<sup>th</sup> birthday.

*Social grants are an essential part of the social security safety net*

**‘Employment and entrepreneurship are the best means of ensuring income security.’ – Minister of Social Development Edna Molewa**

The best means of protecting income for workers and their dependents, however, is to expand employment. Chapter 3 focuses on employment. Active labour market policies are required to help those outside the labour market to find work, either through retraining, assisting with the search for work, or incentives for job creation. The expanded public works programme plays a significant role in providing short-term jobs, though its implementation has been uneven and fragmented. The second phase of this programme, which began in April 2009, seeks to create 4 million part-time jobs over the next five years.

*Experiences during the recession highlight the need for long-term reform of the social insurance*

The experiences of the past year have highlighted the need for long-term reforms of the social insurance system. The UIF has shown how contributory social insurance can reduce the impact of negative income shocks. However, the UIF covers only a fraction of the unemployed, and other aspects of social insurance, such as death and disability protection, are inadequately addressed.

**Social security, social assistance and social insurance**

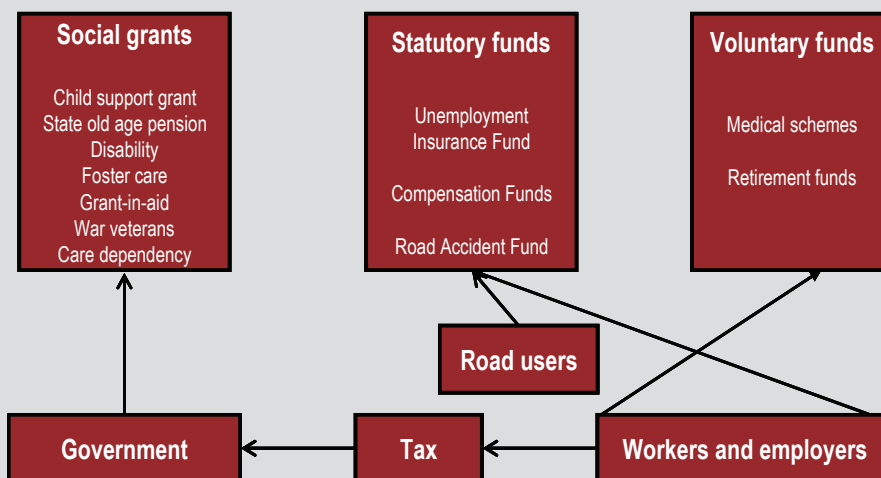
There are two separate aspects to social security: social assistance and social insurance.

- Social assistance is represented by the grants system, through which the state provides basic minimum protection to relieve poverty. Receipt of this support is subject to a qualifying means test.
- Social insurance refers to mandatory employee contribution schemes. Government is responsible for three primary social insurance mechanisms: the UIF, the Compensation Funds and the Road Accident Fund (RAF).

The state also regulates voluntary savings and insurance arrangements such as medical schemes and retirement funds. These schemes are not mandatory, but some companies enrol workers in health insurance arrangements and retirement funds as a matter of course, and government provides tax incentives to encourage participation.

Many South Africans cannot afford voluntary contributions either to medical schemes or retirement funds, with the result that coverage is incomplete, especially for lower-income workers. Even workers who are relatively well-covered by social insurance mechanisms during their careers may find themselves without protection in retirement, meaning they are dependent once again on the public health system and the grants system in the form of the state old age pension.

**South Africa’s social security architecture**



**Table 7.1 Social security beneficiaries, 2006/07 – 2009/10**

	2006/07	2007/08	2008/09	2009/10
<b>Social grants</b>				
Recipients	11 983 141	12 374 770	13 066 118	13 958 894
<b>Unemployment Insurance Fund</b>				
Recipients per month	154 546	140 086	164 301	207 967
<b>Compensation Fund</b>				
Claims registered	213 246	209 830	203 711	234 266
<b>Road Accident Fund</b>				
Claims registered	170 418	267 133	294 771	196 405
<b>Expanded public works programme</b>				
Full-time equivalent jobs	85 702	146 359	184 642	–
Work opportunities	316 814	440 266	570 815	–
<b>Medical schemes</b>				
Members	2 985 350	3 233 490	3 388 582	3 463 642
Dependents	4 141 993	4 371 746	4 486 244	4 636 935
<b>Pension and provident funds<sup>1</sup></b>				
Active members	7 370 436	7 273 897	–	–
Pensioners	1 971 682	2 138 272	–	–

1. Financial Services Board data includes double-counting. Membership is estimated to be 5 million - 6.5 million.

## Social assistance

### Social grants and household welfare

Nearly 14 million South Africans are benefiting from social assistance transfers. These non-contributory cash grants are an immediate and effective source of income support for poor households. More than 9 million of these grants are for households with children.

*About 14 million people now benefit from social assistance transfers*

Table 7.2 shows the increases in grant values for the next fiscal year, which will take effect in April 2010.

**Table 7.2 Social grants value, 2009/10 and 2010/11**

Rand	2009/10	2010/11	Increase
State old age pension	1 010	1 080	70
Disability grant	1 010	1 080	70
Child support grant	240	250	10
Foster care grant	680	710	30
Care dependency grant	1 010	1 080	70
War veterans grant	1 030	1 100	70
Grant-in-aid	240	250	10

In addition to the cash grants, social relief of distress is also provided in certain circumstances. This is immediate, temporary assistance to people in a crisis, consisting mainly of food parcels, though in some instances cash or vouchers are also provided. Assistance is usually rendered for three months but can be extended for up to six months. In 2008 and 2009 expenditure on social relief of distress increased markedly to cushion the impact of the recession.

### Conditions for the child support grant

As of 1 January 2010, caregivers of *child support grant* beneficiaries need to ensure that children for whom they are in receipt of a grant are enrolled and attending school. Regular proof of school enrolment needs to be submitted to the Department of Social Development, along with reports from the school.

Upon receipt of any information regarding a child not attending school the Department of Social Development will send a social worker to investigate and put in place steps to ensure that the child attends school. While punitive measures such as stopping the grant are not envisaged, these provisions will allow government to improve school attendance and provide the necessary support to households where needed.

*12 per cent average annual growth in social assistance over the past four years*

Social assistance grew on average by 12 per cent per year between 2006/07 and 2009/10. The increased growth in social grant expenditure is a result of inflation adjustments to the grant values, adjustments to the means test thresholds, equalisation of the old age grant from 65 years to 60 years for men (which concludes in 2010), and general increases in beneficiary numbers. Growth over the medium-term expenditure framework (MTEF) is largely the result of the extension of the *child support grant* to eligible children up to their 18<sup>th</sup> birthday. The responsibility of caregivers to ensure grant recipients attend school is now embedded in the regulations.

The extension of child support will be phased in over the next three years, with additional allocations of R1.3 billion, R3.1 billion and R5 billion in 2010/11, 2011/12 and 2012/13 respectively. This is in addition to the increases to expenditure already contained in the MTEF baseline. The number of children receiving the grant is expected to increase from 9.1 million in December 2009 to 11.5 million in March 2013.

### South African Social Security Agency

*SASSA is taking steps to stamp out fraud and will pursue effective prosecution of public- and private-sector violators*

The South African Social Security Agency (SASSA) is responsible for administering social assistance transfers. In 2010/11 SASSA will focus on widening access to social grants, improving grants administration and payments, reducing fraud and improving the application of means tests. The agency's service delivery initiatives include streamlining the grant application process and ensuring standardisation throughout the country.

In cooperation with government's Special Investigating Unit, SASSA has cracked down on fraudulent grant claims among public servants and is currently investigating similar abuses in the private sector. SASSA is also reviewing dormant bank accounts, which include the accounts of deceased beneficiaries whose families have not notified the agency and those living overseas who still receive grants. In 2010 it is estimated that about R300 million will be recovered from dormant accounts.

SASSA's baseline allocation (as illustrated in Table 7.3) will increase from R5.2 billion in 2009/10 to R5.6 billion in 2010/11 – a 9 per cent increase. Growth will average 7 per cent between 2009/10 and 2012/13.

*SASSA is exploring ways to reduce costs associated with cash payments*

The bulk of SASSA's administrative expenditure (53 per cent) remunerates cash payment contractors. About 27 per cent of administrative expenditure goes towards personnel spending, with the balance covering operational expenses.

To reduce administrative costs, SASSA is investigating alternate methods for payment of social grants. Cash payment contracts cost between R24 and R35 per grant payment, and some 80 per cent of social grant recipients are paid in this way. Considerable savings could be achieved by shifting payments to recipients' bank accounts. Bringing more beneficiaries into the formal banking sector is therefore an important goal.

**Table 7.3 Social grants expenditure as a percentage of GDP, 2006/07 – 2012/13**

R million	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
				Revised estimate	Medium-term estimates		
Social grants transfers	57 032	62 467	70 715	80 080	89 368	98 594	106 808
SASSA administration	4 192	4 143	4 630	5 169	5 631	6 098	6 153
<b>Total</b>	<b>61 224</b>	<b>66 610</b>	<b>75 345</b>	<b>85 249</b>	<b>94 999</b>	<b>104 692</b>	<b>112 961</b>
<i>Percentage of GDP</i>	3.3%	3.2%	3.2%	3.5%	3.5%	3.5%	3.4%

### Social assistance beneficiary and expenditure trends

Table 7.4 shows the growth in social grant beneficiary numbers by grant and province since 2006. Table 7.5 sets out grant expenditure, also by grant and province, since 2006/07 and spending forecasts over the MTEF.

*Largest number of grants is for child support, while the old age pension is largest by expenditure*

The number of beneficiaries approached 14 million during 2009/10. The average annual growth in the number of beneficiaries was 6.3 per cent over the five years to 2009/10. Notable features include the following:

- The *child support grant* is the largest grant by number of recipients, accounting for 68 per cent in 2009/10.
- The old age pension is the largest by expenditure (37 per cent).

**Table 7.4 Social grants beneficiary numbers by type and province, 2005/06–2009/10**

Type of grant	2005/06	2006/07	2007/08	2008/09	2009/10 <sup>1</sup>	% growth (average annual)
Old age	2 144 117	2 195 018	2 218 993	2 343 995	2 534 082	4.3%
War veterans	2 832	2 340	1 963	1 599	1 248	-18.5%
Disability	1 319 536	1 422 808	1 413 263	1 371 712	1 310 761	-0.2%
Foster care	312 614	400 503	443 191	476 394	569 215	16.2%
Care dependency	94 263	98 631	101 836	107 065	119 307	6.1%
Child support	7 044 901	7 863 841	8 195 524	8 765 354	9 424 281	7.5%
<b>Total</b>	<b>10 918 263</b>	<b>11 983 141</b>	<b>12 374 770</b>	<b>13 066 118</b>	<b>13 958 894</b>	<b>6.3%</b>
<b>Province</b>						
Eastern Cape	2 094 642	2 244 303	2 291 898	2 346 773	2 498 410	4.5%
Free State	678 522	723 698	755 665	765 553	814 991	4.7%
Gauteng	1 318 981	1 406 445	1 451 967	1 537 795	1 638 747	5.6%
KwaZulu-Natal	2 498 888	2 931 722	3 033 463	3 317 229	3 478 811	8.6%
Limpopo	1 640 032	1 751 512	1 798 859	1 894 038	2 019 849	5.3%
Mpumalanga	836 451	901 386	925 171	977 704	1 037 971	5.5%
Northern Cape	213 512	232 102	307 095	326 516	357 517	13.8%
North West	888 065	1 001 629	980 018	1 014 571	1 089 135	5.2%
Western Cape	749 170	790 344	830 634	885 938	1 023 463	8.1%
<b>Total</b>	<b>10 918 263</b>	<b>11 983 141</b>	<b>12 374 770</b>	<b>13 066 118</b>	<b>13 958 894</b>	<b>6.3%</b>

1. Projected numbers at fiscal year end.

Source: Provincial budgets and expenditure review / Socpen system

- Foster care beneficiaries grew at the annual rate of 16.2 per cent, largely as a result of a growing number of orphans and courts' enhanced capacity to provide oversight under the Children's Act.
- There has been a 0.2 per cent average reduction in disability grant beneficiaries as a result of improved processing of applications.

*In 2010/11, spending on the old age grant is expected to reach R34.1 billion*

Social assistance grant expenditure is projected to increase at an average annual rate of 11 per cent between 2006/07 and 2012/13. In 2010/11, spending on the old age grant is expected to be R34.1 billion, and child support expenditure will amount to R30.9 billion.

**Table 7.5 Social grants expenditure by type and province, 2006/07 – 2012/13**

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	% growth (average annual)
<b>R million</b>								
Old age	21 222	22 801	25 934	29 991	34 058	37 521	39 973	11.1%
War veterans	25	22	20	18	15	13	12	-11.5%
Disability	14 261	15 280	16 474	16 853	17 379	18 012	19 432	5.3%
Foster care	2 851	3 414	3 934	4 362	5 232	6 159	6 704	15.3%
Care dependency	1 006	1 132	1 292	1 356	1 580	1 799	1 898	11.2%
Child support	17 559	19 625	22 348	27 273	30 860	34 830	38 513	14.0%
Grant-in-aid	67	87	90	95	102	108	115	9.4%
Social relief of distress	41	106	623	132	143	151	160	25.5%
<b>Total</b>	<b>57 032</b>	<b>62 467</b>	<b>70 715</b>	<b>80 080</b>	<b>89 368</b>	<b>98 594</b>	<b>106 808</b>	<b>11.0%</b>
<b>Province</b>								
Eastern Cape	10 599	11 636	12 557	14 543				
Free State	3 706	4 122	4 573	5 225				
Gauteng	6 747	7 318	8 289	9 317				
KwaZulu-Natal	13 890	15 105	17 590	19 531				
Limpopo	7 636	8 439	9 656	10 909				
Mpumalanga	3 928	4 322	4 943	5 573				
Northern Cape	1 285	1 622	1 962	2 196				
North West	4 912	5 187	5 711	6 513				
Western Cape	4 329	4 716	5 434	6 273				
<b>Total</b>	<b>57 032</b>	<b>62 467</b>	<b>70 715</b>	<b>80 080</b>				

*Source: Socpen system*

## ■ Social security funds

Contributory social security funds provide conditional income support or compensation to workers and road users who are injured or out of work. The present social security schemes include the UIF, the Compensation Funds and the Road Accident Fund (RAF), which are financed through mandatory levies and taxes.

*Social security funds are expected to run an overall surplus of R5.4 billion in 2009/10*

These funds are expected to run a combined cash surplus of about R5.4 billion in 2009/10, lower than the surplus of R12.8 billion recorded in the previous financial year, mainly as a result of higher UIF claims and decreased revenue due to the economic slowdown. The UIF and Compensation Funds generally run healthy surpluses, while expenditure on claims continues to outstrip revenue at the RAF.

**Table 7.6 Social security funds, 2006/07 – 2012/13**

R million	2006/07	2007/08 Outcome	2008/09	2009/10 Revised estimate	2010/11	2011/12	2012/13 Medium-term estimates
<b>Unemployment Insurance Fund</b>							
Revenue	9 467	11 324	13 831	13 353	13 310	14 426	15 597
Expenditure	3 578	3 592	4 636	8 188	7 838	8 737	9 794
<b>Compensation Funds</b>							
Revenue	3 724	5 661	6 859	5 121	6 211	6 550	7 228
Expenditure	2 912	3 567	3 192	4 106	3 673	4 011	4 756
<b>Road Accident Fund</b>							
Revenue	7 213	8 104	11 879	11 168	12 800	14 759	17 125
Expenditure	7 501	9 316	11 981	11 975	12 781	14 783	17 148
<b>Total: Social security funds</b>							
Tax revenue	17 804	20 868	23 302	24 651	26 447	29 095	32 504
Non-tax revenue	2 593	4 212	6 757	4 981	5 862	6 627	7 433
Grants received	7	9	2 509	10	12	12	13
<b>Total revenue</b>	<b>20 404</b>	<b>25 089</b>	<b>32 569</b>	<b>29 641</b>	<b>32 321</b>	<b>35 735</b>	<b>39 950</b>
<b>Total expenditure</b>	<b>13 990</b>	<b>16 475</b>	<b>19 809</b>	<b>24 269</b>	<b>24 292</b>	<b>27 532</b>	<b>31 698</b>
<b>Budget balance<sup>1</sup></b>	<b>6 414</b>	<b>8 614</b>	<b>12 760</b>	<b>5 373</b>	<b>8 029</b>	<b>8 203</b>	<b>8 253</b>

1. A positive number reflects a surplus and a negative number a deficit.

## Unemployment insurance

The UIF provides short-term unemployment insurance to qualifying workers. It pays benefits to contributors or their dependants in cases of unemployment, illness, maternity, adoption of a child or death. The March 2009 actuarial valuation indicated that the UIF is in a position to meet its cash-flow requirements over the next 10 years for a wide range of possible scenarios. The UIF had capital and reserves amounting to R34.6 billion as at 31 March 2009.

*Despite an expanding number of claims, the UIF is in good financial health*

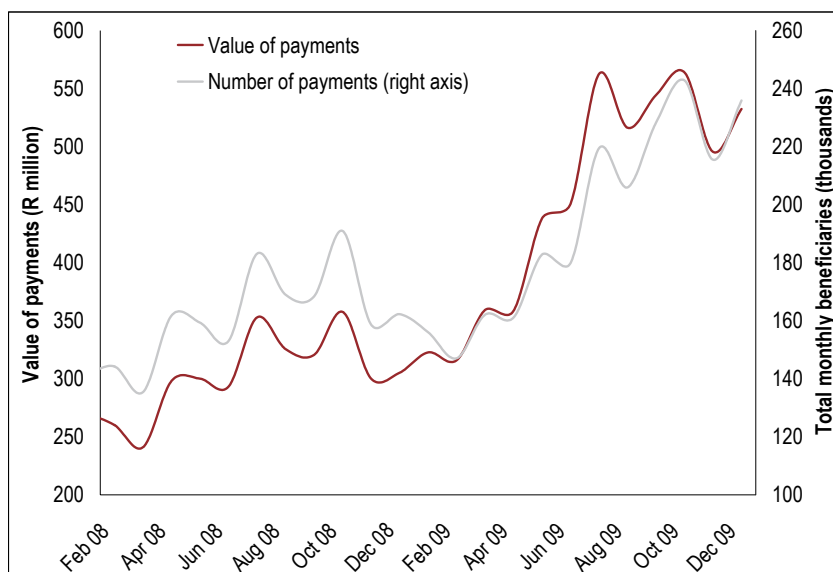
Over the first nine months of 2009/10, the average number of new claimants for UIF benefits each month increased by 42 per cent from an average of 47 277 in the first three quarters of 2008/09 to about 67 145. Average monthly benefit payments increased by 57 per cent over the same period, to about R495.8 million, and there were 207 967 beneficiary payments a month, compared with about 168 000 beneficiaries in 2008/09. Figure 7.1 shows the increase both in expenditure and beneficiaries.

UIF data indicate that more people are becoming unemployed for longer periods, and that there is an increase in higher-income claimants. Growth in expenditure is expected to stabilise at an average annual rate of 5.9 per cent over the medium term as job creation recovers.

*Data shows that more people are becoming unemployed for longer periods of time*

Although the UIF was able to cope with the sharp increase in the number of claims, there are many jobless South Africans who do not receive assistance from the fund, either because they have exhausted their benefits or because they have never worked. Although UIF coverage includes all employees other than civil servants, its benefit payments reach only about 5 per cent of the 4.2 million unemployed, which highlights the importance of addressing structural unemployment while broadening social insurance.

Figure 7.1 UIF payments and beneficiaries, 2008 – 2009



*UIF plans to help train, develop and place unemployed workers*

The UIF is taking other steps to support unemployed workers. In conjunction with the National Skills Fund, R2.4 billion has been set aside for the training layoff scheme, although take-up for the system has been slow. Government is also considering options for improving and extending benefits, for example by raising the income replacement rate or by reducing the length of time it takes to accrue credits. It is also considering extending coverage to public servants, who currently contribute to the Government Employees Pension Fund rather than the UIF.

Table 7.7 UIF benefits and recipient numbers, 2006/07 – 2012/13

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
	Outcome			Revised	Medium-term estimates		
<b>Benefits (R million)</b>							
Unemployment	1 991	2 031	2 834	3 942	4 279	4 879	5 562
Illness	180	187	212	355	386	440	502
Maternity/adoption benefits	418	460	538	832	902	1 028	1 173
Dependant benefits	248	243	264	491	533	607	691
<b>Total benefits paid<sup>1</sup></b>	<b>2 837</b>	<b>2 921</b>	<b>3 848</b>	<b>5 620</b>	<b>6 100</b>	<b>6 954</b>	<b>7 928</b>
<b>Beneficiaries (thousand)</b>							
Unemployment	421	397	475	529	590	658	734
Illness	30	25	26	26	26	27	27
Maternity/adoption benefits	96	89	94	98	102	106	110
Dependant	25	16	16	18	19	21	23
<b>Total beneficiaries</b>	<b>572</b>	<b>527</b>	<b>611</b>	<b>671</b>	<b>737</b>	<b>812</b>	<b>894</b>

1. Numbers are recorded on an accrual basis, excluding provisions.

### Compensation Funds

*Compensation Funds costs are recovered through assessed levies on employers*

The Compensation Funds provide medical care and income benefits to workers who are injured on the job or who develop occupational diseases, survivor benefits to families of victims of employment-related fatalities and funding for rehabilitation of disabled workers. Costs are recovered through assessed levies on employers.



**Table 7.8 Expenditure by benefit type: Compensation Fund, 2006/07 – 2012/13**

	2006/07	2007/08 Outcome	2008/09	2009/10 Revised estimate	2010/11	2011/12	2012/13 Medium-term estimates
<b>Claims (R million)</b>							
Medical	1 552	1 000	1 540	1 429	1 481	1 536	1 528
Compensation	331	159	1 224	997	1 130	1 300	1 456
Temporary disablement	187	55	91	129	133	138	143
Permanent disablement	144	84	74	155	182	216	255
<b>Total benefits paid<sup>1</sup></b>	<b>2 214</b>	<b>1 298</b>	<b>2 929</b>	<b>2 709</b>	<b>2 926</b>	<b>3 189</b>	<b>3 381</b>
<b>Payments</b>							
Medical	886 511	777 320	815 045	896 550	986 204	1 084 825	1 193 307
Disablement	331 672	335 345	327 647	360 412	396 453	436 098	479 708
<b>Total number of payments</b>	<b>1 218 183</b>	<b>1 112 665</b>	<b>1 142 692</b>	<b>1 256 962</b>	<b>1 382 657</b>	<b>1 520 923</b>	<b>1 673 015</b>

1. Numbers are recorded on an accrual basis, excluding provisions.

There are four main funds. Two are administered by government, and two are run by private firms licensed by the Compensation Commissioner:

- The largest is the Compensation Fund, which is administered by the Department of Labour and serves employees outside the mining and construction sectors. To enhance access to services, the Compensation Fund plans to decentralise its functions to four provinces by March 2010. The fund is financially sound, with an accumulated surplus of R6.5 billion as at 31 March 2009 and reserves of R13.9 billion.
- The Mines and Works Compensation Fund, overseen by the Department of Health, provides compensation to miners and former miners who have contracted lung-related diseases. In 2008/09 the fund paid about R1 billion to cover 5 227 claims. This expenditure was down 8.3 per cent on the previous year, though the number of claims was up by 3.8 per cent. Significant backlogs in the processing of claims and administrative problems in this fund are being cleared.
- The Rand Mutual Association covers injuries suffered by workers in the mining industry. The association covered 316 employers in 2009, receiving 22 263 claims and paying out R157 million for medical expenditure. Medical expenditure rose by 13.2 per cent from the previous year even though the number of claims fell by 12.9 per cent.
- The Federated Employers' Mutual Assurance provides compensation to injured workers from the building industry. The fund covered 276 965 employees in 2009 and received 10 279 claims. There were 3.5 per cent fewer claims than during the previous year.

Government seeks to achieve greater alignment between the Compensation Funds and other social security arrangements, both in terms of financing and administration. Options for alignment of compensation arrangements with the RAF are under review, as its emergency medical care and income support responsibilities overlap with those of the Compensation Funds.

*Government seeks to achieve better alignment between the Compensation Funds in terms of both financing and administration*

### Road Accident Fund

The RAF provides compensation for the loss of earnings, along with general damages, medical and funeral costs to victims of road accidents

caused by the negligent or wrongful driving of another vehicle. Since the promulgation of the Road Accident Fund Amendment Act (2005), the level of compensation has been limited in respect of income and loss of support, with compensation for pain and suffering reserved for those seriously injured.

*Delays in promulgation of RAF reforms have resulted in a continued claims backlog and financial strains*

These amendments will in time reduce the overall liability of the RAF, while laying a foundation for better protection of those who suffer severe injuries in road accidents. However, as a result of the late promulgation of the Amendment Act (which only took effect in August 2008) and delays in claims received, the amendments have not yet affected financial flows. Consequently, both the liquidity and the solvency of the fund remain under severe strain, and the claims backlog persists.

Expenditure is set to rise in 2009/10 from the previous year because of a steep increase in the number of claims paid, the quantum paid, and increases in the provision for outstanding claims. Revenue to deal with these increases in expenditure was bolstered by transfers of R5.2 billion from the fiscus in 2005/6 and 2008/09 and by a 17c increase in the fuel levy in 2009/10. The claims backlog was reduced by 12 per cent from 297 072 in 2008/09 to 261 390 in 2009/10. To ensure sufficient liquidity to meet fund claims the RAF fuel levy will be increased by 8c from April 2010. The RAF's contingent liability is projected to reach R47 billion in the 2009/10 financial year.

The Department of Transport has developed a draft policy for the creation of a no-fault road accident benefit scheme. These reforms are needed to provide road-users with a sustainable social insurance system to tackle the RAF's growing liability and to clarify the appropriate supplementary role of personal accident and life cover.

### **A no-fault road accident system for South Africa**

The Department of Transport has proposed the adoption of a no-fault road accident benefit system designed on social security principles. The proposal, approved for public consultation by Cabinet, will establish a fairer and more cost-effective system of statutory protection for road users. The system is intended to:

- Expand access to benefits to a wider group of road accident victims by removing common law requirement for fault to be proven
- Optimise resources in favour of people with serious injuries and reduce spending on minor injuries
- Align benefits and resource allocation to other social security arrangements
- Focus on rehabilitation to facilitate timely and appropriate medical care to reduce the impact of injuries
- Provide financial support to persons affected by the injury or death of an earner
- Simplify claims procedures, reduce disputes and create certainty by providing defined benefits.

## **Retirement and health systems**

### **Saving and income security for low-income earners**

Retirees in South Africa have two main sources of income: the means-tested state old age pension and private pensions. There is no statutory obligation to contribute to either. In some firms, participation in a pension fund is a condition of employment, but there is no obligation for workers

to preserve these savings if they lose or change jobs. Workers often belong to provident funds, which allow contributors to withdraw savings as a lump sum at retirement rather than purchase an annuity which would provide an income stream throughout retirement.

Millions of South Africans are unable to save adequately for retirement and rely on the old age pension, even though it might provide an income well below average career earnings. In the absence of protection through social insurance arrangements, a severe illness or protracted spell of unemployment often obliges people to exhaust their savings long before they reach retirement age. The means test associated with the old age pension can also serve as a disincentive to retaining savings at retirement.

*Millions of South Africans, unable to save adequately for retirement, rely on the state old age pension*

South Africa's retirement system is essentially voluntary. As Table 7.9 indicates, coverage through voluntary pensions is incomplete, especially at lower-income levels. Coverage also varies by sector and type of work. Voluntary contractual savings products frequently offer poor value for money to low earners, and the private retirement industry is characterised by high administration costs. High costs tend to arise from poor fund governance, high levels of leakage from the system, the absence of economies of scale and structural conflicts of interest.

According to the Financial Services Board (FSB), 9.4 million people belonged to pension funds in 2007, of whom 7.4 million were contributors and 2 million were pensioners. However, these numbers exaggerate overall coverage, as some people belong to two or more funds. At retirement, many contributors find that they have insufficient funds to meet their needs, and many low-income earners have no retirement savings.

Although there are weaknesses in terms of access, affordability and coverage, the retirement industry also has major strengths, notably a well-established system of retirement fund administration. The much-needed consolidation of the fragmented retirement fund industry continues. The FSB reports that the number of retirement funds had fallen from 12 634 at the end of 2007 to 11 431 in February 2010. Despite a shift towards multi-employer (umbrella) funds, some 80 per cent of funds are thought to have fewer than 100 members.

*Despite poor access and affordability, the retirement industry has strengths to build on*

**Table 7.9 Occupational pension scheme coverage by income**

Annualised income	Percent of workers with income in range	Employer contribution to pension/retirement fund
R0-R6 000	7.9%	6.2%
R6 001– R12 000	16.9%	14.0%
R12 001– R18 000	13.1%	28.2%
R18 001– R30 000	16.3%	48.2%
R30 001– R42 000	9.8%	73.8%
R42 001– R54 000	7.0%	79.6%
R54 001– R72 000	6.5%	83.0%
R72 001– R96 000	5.4%	89.1%
R96 001– R132 000	4.9%	89.2%
R132 001– R192 000	3.1%	89.4%
R192 001+	2.9%	85.3%
<b>Total</b>	<b>51.1%</b>	<b>100.0%</b>

Source: Labour Force Survey 2006

*South Africa needs an affordable savings mechanism for low-income earners*

There is an obvious need for an appropriate and affordable savings mechanism for low-income earners. Government is considering the design of a standard, basic retirement saving and income protection scheme that is affordable, simple, cost-effective and available to low-income employees and those with irregular earnings. Such a plan needs to allow for income assurance in the event of unemployment, death or disability. It must also combine assured minimum benefits with a reasonable return on accumulated savings.

The basic social security arrangement could be a common, pooled fund to which all employed persons contribute. However, allowing accredited private funds to operate alongside a statutory default arrangement would grant workers access to affordable and secure savings arrangements, while allowing existing provident and pension funds time to adapt to more stringent minimum standards. Accreditation of private funds would cover standards of proper governance, benefit protection and cost efficiency, allowing better-run, more efficient retirement funds to continue to operate.

*Social security task team is determining standards for a default arrangement*

A ministerial committee on social security reform, supported by an inter-departmental task team, will give consideration this year to the design standards that a default arrangement and accredited funds should meet.

### **Access to health care**

South Africans obtain medical care either through the public health system or through contributory medical schemes. Existing levels of funding for health care are shown in Table 7.10. Out-of-pocket payments or copayments for health services comprise about 11 per cent of total expenditure, public health services account for 31 per cent and medical scheme reimbursements for 24 per cent.

According to the Council of Medical Schemes, some 7.9 million South Africans are currently protected by medical schemes, including 3.4 million principal members and 4.5 million dependants. As announced in last year's *Budget Review*, changes to the tax treatment of medical scheme contributions are currently under consideration. The intention of these reforms is to improve access to medical schemes, especially among low earners, and to create a standardised subsidy for all South Africans.

*More than 40 million South Africans currently rely on public health care*

Public funding for the health sector is equivalent to about 4 per cent of GDP and 14 per cent of the main budget. There are at present more than 40 million South Africans who rely on public health care. The management and resources of the public health system are under considerable strain, in part because of shortages of personnel, a growing disease burden (in particular associated with HIV and Aids, and tuberculosis), high infant mortality and low life expectancy.

The public health system suffers from a shortage of staff, infrastructure backlogs and lack of skills. The number of hospital or clinic visits associated with HIV and Aids is fast approaching 30 million a year. There is a major need for reform of hospital systems, governance and quality control mechanisms, as well as for improved referral systems.

**Table 7.10 Health expenditure in public and private sectors**

R million	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
	Outcome			Estimate	Forecast		
<b>Public sector</b>							
National department of health <sup>1</sup>	3 136	3 829	4 755	5 134	5 301	5 604	5 826
Provincial departments of health	51 938	60 645	72 444	87 596	93 465	101 435	107 833
Defence	1 602	1 743	2 024	2 265	2 468	2 634	2 855
Correctional services	234	261	282	300	318	339	359
Police	234	298	463	405	577	721	787
Local government (own revenue)	1 317	1 478	1 625	1 793	1 829	1 865	1 977
Workmens compensation	1 415	1 287	1 415	1 529	1 651	1 718	1 821
Road accident fund	488	764	797	740	860	980	1 039
<b>Total public sector health</b>	<b>60 364</b>	<b>70 305</b>	<b>83 805</b>	<b>99 762</b>	<b>106 469</b>	<b>115 297</b>	<b>122 496</b>
<b>Private sector</b>							
Medical scheme	58 349	65 468	74 089	81 128	88 754	96 653	105 255
Out of pocket	26 596	31 183	34 270	36 498	38 833	41 125	43 551
Medical insurance	2 056	2 179	2 452	2 660	2 870	3 126	3 404
Employer private	982	1 041	1 172	1 271	1 372	1 494	1 627
<b>Total private sector health</b>	<b>87 983</b>	<b>99 871</b>	<b>111 983</b>	<b>121 557</b>	<b>131 829</b>	<b>142 398</b>	<b>153 837</b>
Donors or NGOs	2 503	3 835	5 212	6 319	5 787	5 308	5 574
<b>Total</b>	<b>150 850</b>	<b>174 011</b>	<b>201 000</b>	<b>227 638</b>	<b>244 085</b>	<b>263 003</b>	<b>281 907</b>

1. Includes selected public entities.

In pursuing a more equitable and effective health system, government recognises the complementary role of public and private health services. Proposals for a national health insurance (NHI) system are currently under review, along with other elements of a 10-point strategy for revitalisation of health services. A set of indicators that includes improved life expectancy, reduced infant and child deaths, and lower HIV and Aids and TB incidence, has been developed in conjunction with the Presidency.

*Proposals for a national health insurance system are under review*

### National health insurance

Health insurance is a way of paying in advance for some or all of the costs of health care. It reduces uncertainty and provides financial protection against impoverishment resulting from illness, while allowing for cross-subsidisation between those who are healthy and those who are sick, and between the rich and the poor. Health insurance can contribute to better management of health care by separating the purchasing and provision of services, and through improved referral systems.

The Minister of Health has established an advisory committee on NHI. The construction of an NHI system in South Africa requires several parallel reform processes that build on existing resources and capacity in both the public and private sectors. There are many different configurations of national health insurance arrangements around the world. South Africa needs to develop its own affordable and sustainable reform path. A range of options is being explored.

*An NHI system requires parallel reform processes that build on public and private-sector resources*

Research is now focused on identifying measures that might enable a feasible transition to an NHI model over the next five years. These include improving public health funding, decentralising financial management to hospitals and local health districts, and improving public health management. An urgent rehabilitation of public hospitals through public-

private partnerships has also been proposed, as has an Office of Standards Compliance for health services and facilities.

Other proposals include developing a purchaser-provider split in the public health system and contracting with general practitioners as part of an expansion of the capacity of district health authorities. The development of common platforms for public and private services, such as emergency transport, radiology, trauma and AIDS treatment, has also been suggested.

### Minister of Health's 10-point plan

Ten priority areas comprise the Minister of Health's medium-term strategic framework for 2009-2014:

- Strategic leadership and creation of a social compact for better health outcomes
- A national health insurance plan
- Improved quality of services
- Overhaul of the health care system and its management
- Improved human resources
- Revitalisation of infrastructure
- Accelerated implementation of the HIV and Aids plan, and reduced mortality due to TB and other communicable diseases
- Mass mobilisation for better health for the population
- Review of drug policy
- Strengthened research and development.

*A system of risk equalisation for medical schemes has been proposed*

### Regulatory reform of medical schemes

Medical schemes in South Africa are obliged to offer a prescribed set of minimum benefits comprising reimbursement of costs of hospital care and medicine for a range of treatment requirements. To improve the fairness of coverage for these minimum benefits, the Department of Health and the Council for Medical Schemes have proposed the establishment of a system of risk equalisation between schemes.

Risk equalisation will improve both efficiency and risk-pooling. The risk equalisation fund will protect open enrolment and community rating, and will have the effect of shifting resources from schemes with younger and healthier members to those with a higher proportion of older members or sicker members. This will contribute to broadening coverage and will counter the tendency for small funds with ageing memberships to get into difficulties. Administrative arrangements have been designed, and the fund is currently in a "shadow" phase in which schemes submit data on an annual basis, but there is no flow of funds as yet.

*An inter-ministerial committee is overseeing work on social security and retirement reform*

### ■ Social security reform

An inter-ministerial committee chaired by the Minister of Finance continues to oversee government's work on social security and retirement industry reform, and will also address financial aspects of proposals for NHI. It is supported by an interdepartmental task team with responsibility for considering options for reform, and assessing the fiscal and financial implications.