6

Social security and the social wage

In brief

- The National Development Plan (NDP) recognises that reducing the cost of living is essential for broadening economic participation and eliminating poverty. Alongside the "economic wage" earned through work, the "social wage" provided by government represents a steadily rising contribution to improved living conditions of working people and their families.
- Spending on social development, health, education, housing and local amenities has more than doubled
 in real terms over the past decade and now accounts for almost 60 per cent of public expenditure. In the
 fiscally constrained period ahead, the emphasis will need to be on improved value for money.
- Social assistance provides a safety net for the most vulnerable and will contribute to the monthly incomes
 of over 16 million people in 2013.
- Social development spending has improved living conditions over the past decade, but service delivery must be improved through shared efforts between government, the private sector and civil society.
- Further steps in retirement reform, improvements in contributory social insurance and piloting of national health insurance reforms will progress over the medium term, reinforcing the links between earnings, social services and income support.

Overview

he state's contribution to poverty reduction and social development is substantial and wide-ranging. As emphasised in the NDP, reducing the cost of living for low-income and working-class households is essential for broadening economic participation and inclusive growth.

Social expenditure lowers the cost of living for poor and working-class households

Government contributes to reducing the cost of living in three ways:

• Investment in the social wage, comprising education, health services, social development, public transport, housing and local amenities.

Faster growth is needed

because the fiscus cannot

carry the entire burden of

social development

- Support to vulnerable households through the *old age grant*, the *child support grant* and other social assistance grants.
- Contributory social security, including unemployment insurance, injury compensation and death or disability benefits.

The social wage and economic growth

Decent work is about both earned income and the living conditions of working people. Employment and productivity advances can be reinforced by improvements in education, health care, housing and other services. These, in turn, will have greater impact on reducing poverty and inequality if accompanied by more rapid job creation and enterprise development. South Africa's medium-term fiscal constraints underline the need for accelerated growth, because the fiscus cannot carry the entire burden of social development.

South Africa confronts high levels of poverty and inequality. Figure 6.1 shows the distribution of individual earnings across the working population, indicating that over 60 per cent of working people earn less than the tax threshold of about R5 000 a month.

Figure 6.1 also shows the principal means tests associated with different public services. Parents or caregivers earning less than R2 800 per month are eligible for the *child support grant*, which pays R280 per month for each child they are looking after. Some of these tests apply to households: where a household earns less than R3 500 per month, it qualifies for a housing subsidy currently worth R84 000.

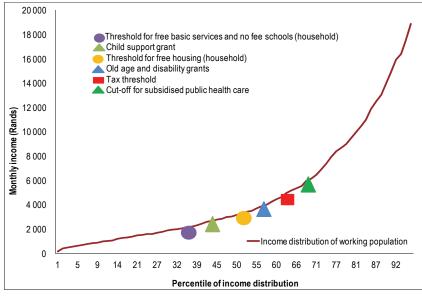


Figure 6.1 Means tests and the distribution of income

Source: National Treasury

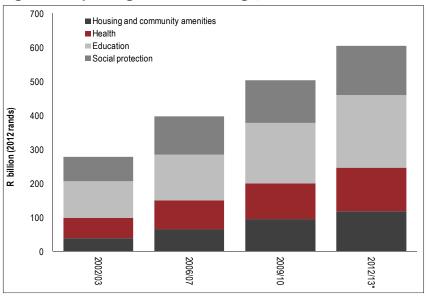
Improving quality and reach of education, health, housing and services is central to social development This illustration shows how the thresholds for social assistance, housing and free health care accommodate a substantial proportion of the population. Improving the quality and reach of education, public health, housing, municipal amenities and welfare services is therefore central to reducing poverty and improving the living conditions of working people and their families.

Expanding opportunities for work and improving earnings are also essential. South Africa's human development challenge and the goals of the NDP are addressed both through public investment in the social wage and expanded participation in employment and economic growth.

Close to 60 per cent of government spending is allocated to the social wage. As Figure 6.2 shows, expenditure on these services has more than doubled in real terms over the past decade. As a percentage of GDP, spending on the social wage has risen from 13 per cent to 19 per cent over the same period. Social assistance pays an income directly to vulnerable households, while the other public services that make up the social wage replace or subsidise day-to-day expenses such as housing, education and amenities, reducing the cost of living.

Social wage has more than doubled in real terms since 2002

Figure 6.2 Spending on the social wage, 2002/03 - 2012/13



*2012/13 is an estimate Source: National Treasury

An expression of social solidarity

The social wage achieves a redistribution of income and opportunities through the fiscus, partly because benefits are directed on the basis of need, and partly because costs are met through a progressively structured tax system. This gives practical expression, in South Africa's circumstances, to the principle of social solidarity.

Substantial growth in social spending over the past decade has financed a threefold increase in the number of people receiving social grants, a doubling in per capita health spending, the construction of 1.5 million free homes and the provision of free basic education to the poorest 60 per cent of learners. The impact is evident in improved living standards, expanded access to basic services and the changing urban/rural landscape.

Social wage achieves a progressive redistribution of income and opportunities through the fiscus

¹ Van der Berg, Servaas. 2009. Fiscal incidence of social spending in South Africa, 2006. Available at www.treasury.gov.za.

While access to services has expanded rapidly, there is much to be done to improve the management and effectiveness of social services, and to strengthen development coordination at local level between government, the private sector and civil society partners. There also has to be progressive growth in household income from productive economic activity.

This chapter provides an overview of social assistance and relief programmes supporting the unemployed and most vulnerable, and broader investment in social services aimed at improving living conditions for all. It summarises contributory social security arrangements and the status of retirement reform and national health insurance (NHI).

Social assistance and welfare services

About 16 million people benefit from social grants, up from 2.5 million in 1998 The social assistance programme provides a regular income to South Africa's most vulnerable households and is government's most direct means of combating poverty. By the end of 2012/13, nearly 16.1 million people were beneficiaries of social grants, up from 2.5 million in 1998. Most of this increase relates to the expansion of the *child support grant*.

More than half of all households benefit from social assistance. For 22 per cent of households, social grants are the main source of income. Social grants are funded directly through the fiscus and will contribute R113 billion to the income of low-income households in 2013/14. Access to social grants has been broadened in recent years by raising the means test income thresholds.

11.4 million children benefit from child support grant

The number of *child support grant* beneficiaries has risen from 5.7 million in 2004/05 to about 11.4 million as a result of the increase in the eligibility age to a child's 18th birthday. An impact study conducted in 2012 found that receipt of this grant promotes early childhood development, improves educational outcomes, and contributes to better nutrition and health.²

Table 6.1 Monthly social grant values, 2012/13 and 2013/14

Rand	2012/13	2013/14	Increase
Old age grant	1 200	1 260	5.0%
Old age grant, over 75s	1 220	1 280	4.9%
War veterans grant	1 220	1 280	4.9%
Disability grant	1 200	1 260	5.0%
Foster care grant	770	800	3.9%
Care dependency grant	1 200	1 260	5.0%
Child support grant ¹	280	290	3.6%

^{1.} Value will increase to R300 in October 2013

Adjustments for all grants compensate for effects of inflation

Table 6.1 shows the adjustments for grants in 2013/14. The *old age*, *war veterans*, *disability* and *care dependency* grants will increase by R60. The *foster care grant* will increase by R30 and the *child support grant* by R10 in April and a further R10 in October 2013.

² Department of Social Development, South African Social Security Agency and United Nations Children's Fund. 2012. *The South African Child Support Grant Impact Assessment: Evidence from a survey of children, adolescents and their households. Pretoria: UNICEF South Africa.*

Table 6.2 shows beneficiary numbers by social grant and by province. Average annual growth in the number of grant recipients was 5.3 per cent over the four years to 2012/13, and is projected to moderate to 2.2 per cent a year over the period ahead.

Table 6.2 Social grant beneficiary numbers by type and province, 2009/10 - 2015/16

	2009/10	2010/11	2011/12	2012/13 ¹	2013/14	2014/15	2015/16	Average
		Actual		Revised estimate		Projected		annual growth 2009/10 –
Thousands								2015/16
Type of grant								
Old age ²	2 491	2 648	2 711	2 851	2 931	3 013	3 096	3.7%
Disability	1 299	1 212	1 172	1 179	1 180	1 181	1 181	-1.6%
Foster care	489	490	518	529	569	604	633	4.4%
Care dependency	119	121	122	130	135	140	146	3.4%
Child support	9 381	10 154	10 675	11 406	11 699	11 937	12 116	4.4%
Total	13 779	14 625	15 198	16 095	16 514	16 875	17 172	3.7%
Province								
Eastern Cape	2 416	2 544	2 613	2 694	2 753	2 803	2 844	2.8%
Free State	806	869	900	941	961	977	992	3.5%
Gauteng	1 702	1 815	1 909	2 189	2 250	2 304	2 352	5.5%
KwaZulu-Natal	3 456	3 633	3 734	3 879	3 984	4 074	4 145	3.1%
Limpopo	1 974	2 100	2 113	2 135	2 188	2 232	2 268	2.3%
Mpumalanga	1 009	1 069	1 178	1 411	1 455	1 492	1 519	7.1%
Northern Cape	348	373	392	419	429	438	445	4.2%
North West	1 071	1 103	1 148	1 111	1 138	1 162	1 184	1.7%
Western Cape	997	1 119	1 209	1 317	1 356	1 392	1 424	6.1%
Total	13 779	14 625	15 198	16 095	16 514	16 875	17 172	3.7%

^{1.} Projected numbers at fiscal year end

Source: Socpen system

Two social assistance reforms are proposed for the period ahead. First, the Department of Social Development will explore ways to improve income support for orphaned children who live with their relatives. Second, the means test for the *old age grant* will be phased out. This will simplify administration, prevent the exclusion of vulnerable individuals and eliminate the disincentive to preserve retirement savings arising from the present means test. Adjustments to personal income tax rebates will partially offset the costs of this reform and will ensure that the overall incidence of tax and income support arrangements remains redistributive.

Table 6.3 shows that total spending on social grants is projected to decline as a percentage of GDP from 3.4 per cent in 2011/12 to 3.2 per cent in 2015/16 as economic growth outpaces growth in recipients.

Removal of means tests to simplify administration and encourage retirement savings is proposed

^{2.} Includes recipients of war veterans grant

Table 6.3 Social grant trends as a percentage of GDP, 2009/10 – 2015/16

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
		Actual		Revised		Projected	
R million				estimate			
Grants	79 260	87 493	95 962	104 239	113 007	121 482	129 493
Administration ¹	5 550	5 313	5 358	5 848	6 683	6 961	7 160
Total	84 810	92 806	101 320	110 087	119 690	128 443	136 653
Administration as % of total	6.2%	6.2%	6.1%	5.6%	5.6%	5.4%	5.2%
Total as % of GDP	3.4%	3.4%	3.4%	3.4%	3.4%	3.3%	3.2%

^{1.} Administration includes SASSA, payment contractors and appeals tribunal

South African Social Security Agency

SASSA administrative reforms have contributed to improved social grants processing times The South African Social Security Agency (SASSA) administers social assistance. Following improvements in its financial position in recent years, it is now able to fast-track projects to improve service delivery and reduce fraud. Of the 1.2 million new applications for grants last year, 89 per cent were finalised within 21 days, with an average processing time of nine days.

In 2012/13, SASSA implemented a new payment system that will reduce the unit cost per payment from as high as R32 to a standard rate of R16. Beneficiaries are now able to receive their grants anywhere in the country and have access to the banking system.

Social welfare

NGOs play an important role, partnering with government in provision of welfare services Government partners with non-governmental organisations (NGOs) to provide welfare services. NGOs provide a range of statutory services for which they are partly subsidised by government, and also receive support from corporate and other donors. Special priority is given to implementation of the Children's Act (2005), which provides for protection against child abuse and neglect, support for children in conflict with the law, foster care and expanded access to early childhood development. National and provincial social development departments transferred R5 billion to the non-governmental sector for welfare services in 2012/13. These transfers will increase to R6.5 billion in 2015/16.

As of June 2012, there were 100 000 NGOs registered in South Africa, of which 40 per cent operate in social services, providing assistance to children, the elderly, the disabled and victims of abuse. Many NGOs are facing financial difficulties as a result of additional demand associated with their responsibilities and a decline in external donor funding.

Budget support for NGOs includes strengthening their involvement in public employment

The 2013 Budget contains additional funding for NGOs and for the recruitment of social worker graduates. Partly to address the funding challenges faced by welfare services, government is also strengthening the involvement of NGOs in public employment programmes. The social sector of the expanded public works programme, which is run by provincial departments of health, social development and education, recruits unemployed community members to assist with early child development and home- and community-based care.

Towards quality health care for all

South Africa confronts a substantial burden of ill-health. Public health facilities provide vital services to millions of citizens. Primary health care is available free of charge and hospital services are provided at relatively low cost according to income level, with exemptions provided for children under six, pregnant women and social grant beneficiaries.

Private health services mainly operate on a fee-for-service basis and are largely out of reach of households not insured through medical schemes, which cover about 16 per cent of the population. Private health services are generally better resourced than public facilities, and so the quality of available health care is strongly correlated with income level. There are also considerable regional disparities in the quality of public health facilities. The introduction of NHI will seek to address these inequalities, making quality health care accessible to all.

NHI aims to ensure provision of quality health care to all, regardless of income

National health insurance pilot projects

In 2012, the Minister of Health launched 10 pilot projects to assess various policy options for NHI. These include developing new models for primary health-care delivery, contracting with general practitioners to support health delivery in the public sector, improving revenue management at central hospitals, new mechanisms of reimbursing health-care providers, and separating the roles of purchaser and provider of health services.

Conditional grant funding worth R1.3 billion is helping to finance the pilot projects, which have been established in all provinces and cover a total of 10 million people. In the 2013 Budget a new national health conditional grant is established through which the national Department of Health, with the concurrence of provinces, will play a greater role in contracting general practitioners and managing hospital revenue.

Improvement in health outcomes

South Africa's health indicators have improved significantly in recent years. Average life expectancy increased from 56.5 in 2009 to 60 years in 2011, largely due to government's HIV and Aids programmes. An estimated 1.7 million people received antiretroviral medication in 2012. Important advances have been made in the diagnosis of tuberculosis.

Steady improvement in health indicators owing to HIV and Aids programmes, tuberculosis diagnosis and child vaccines

Table 6.4 Key mortality indicators, 2009 - 2011

Indicator	2009	2010	2011	Target 2014 ¹
Life expectancy at birth: total	57	58	60	59
Life expectancy at birth: male	54	56	57	56
Life expectancy at birth: female	59	61	63	61
Adult mortality: total	46%	43%	40%	43%
Adult mortality: male	52%	49%	46%	48%
Adult mortality: female	40%	37%	34%	37%
Under-5 mortality per 1 000 live births	56	53	42	50
Infant mortality (<one 000="" 1="" births<="" live="" per="" td="" year)=""><td>40</td><td>37</td><td>30</td><td>36</td></one>	40	37	30	36
Neonatal mortality ² (<28 days) per 1 000 live births	14	13	14	12
Maternal mortality ³ per 100 000 live births	310	333	_	270

- 1. Health data advisory and coordinating committee, National Department of Health
- 2. District health information system
- 3. Stats SA, 2008 & 2009

Source: Medical Research Council (Rapid Mortality Surveillance Report 2011)

Mother-to-child transmission of HIV, as measured by the number of children born with HIV as a proportion of those exposed to the virus, has fallen from 8.5 per cent in 2008 to 2.7 per cent in 2011, contributing to a

In preparation for NHI, medical and nursing training are expanding

. .

marked reduction in child mortality. New vaccines for pneumonia and diarrhoea have helped to reduce child mortality from 56 deaths per 1 000 live births in 2009 to 42 in 2011. Efforts are under way to achieve a similar improvement in the maternal mortality rate.

Over the past five years, employment in the public health service has increased by 50 000, bringing total employment to 300 000. In preparation for NHI, government is expanding medical and nursing training capacity, and channelling additional investment to primary health care services and health infrastructure under the hospital revitalisation programme.

Financing national health insurance

Need for increase in taxes over long term to support NHI to be addressed in 2013 discussion paper The initial phase of NHI development will not place substantial new revenue demands on the fiscus over the medium term. Investment in improved health facilities and piloting local health service reforms are accommodated within annual health budgets and revenue arrangements. Over the longer term, more significant funding will be required and it is anticipated that a tax increase will be needed to fund implementation.

The National Treasury is working with the Department of Health to examine the required funding arrangements for NHI. A discussion paper inviting public comment on various options will be published in 2013. The paper will also examine arrangements for risk and revenue pooling, mechanisms for the purchasing of health services – including the size and cost of the proposed health benefits package – and the mix of public and private provision of health care.

Education

Education builds the country's human capital and equips children with the skills they need to become economically productive. Raising the quality of education is essential to combat poverty, unemployment and inequality.

Table 6.5 Expansion of no-fee schools, 2007 and 2012

		2007			2012	
Province	Learners in no-fee schools	No-fee schools	Percentage of no-fee learners	Learners in no-fee schools	No-fee schools	Percentage of no-fee learners
Eastern Cape	1 224 711	3 825	73.0%	1 599 008	5 370	81.9%
Free State	298 184	1 304	51.9%	500 303	1 205	75.6%
Gauteng	377 274	432	21.2%	1 040 140	1 241	50.1%
KwaZulu-Natal	1 173 503	3 341	32.9%	1 781 471	4 806	61.9%
Limpopo	1 015 524	2 557	58.7%	1 586 437	3 844	92.5%
Mpumalanga	404 431	983	42.2%	856 314	1 625	81.2%
Northern Cape	102 244	335	40.9%	176 157	446	63.5%
North West	267 042	728	36.6%	658 938	1 472	85.0%
Western Cape	132 560	407	18.8%	368 142	679	35.5%
Total	4 995 473	13 912	42%	8 566 910	20 688	70%

The Constitution guarantees universal access to basic education. Since 2007, government has given effect to this commitment by providing "nofee schools", which are identified according to the income levels of the surrounding communities. The state provides an increased allocation per learner to compensate for loss of school fees. The policy initially covered

the poorest 20 per cent of schools – known as quintile 1. When it was introduced, just under 5 million learners were exempted from paying school fees. Since then, the policy has been extended to include quintile 2 and 3 schools. As shown in Table 6.5, by 2012, 70 per cent of learners in 20 688 schools were not required to pay school fees.

In recent years, government has also increased funding to help students from poor backgrounds obtain tertiary education and vocational training. The National Student Financial Aid Scheme will provide loans and bursaries to 288 188 students in 2012/13, up from 118 160 in 2008/09. This number is projected to grow to 642 269 in 2015/16. The number of poor students receiving bursaries for vocational training will reach 245 655 in 2016, up from 55 173 in 2009.

In higher education, assistance for students from poor backgrounds is increased

National school nutrition programme

The national school nutrition programme is part of government's anti-poverty strategy, targeting learners in quintile 1, 2 and 3 schools. Up until 2009, the programme fed a daily meal to over 6 million learners at primary schools in these quintiles. It was progressively extended to secondary schools from 2009/10 onwards, reaching quintile 3 secondary school learners in 2011/12, when the number of learners fed a meal each school day had increased to over 8.8 million. The programme is now focused on getting better value for money and reducing administrative costs.

National school nutrition programme, 2006/07 – 2011/12

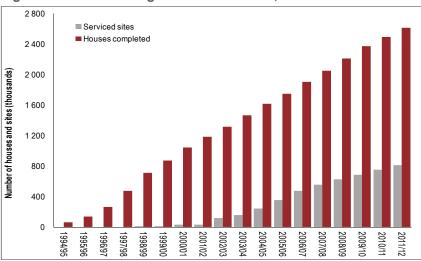
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Number of learners fed	6 075 410	6 138 971	6 340 079	7 125 273	8 281 927	8 850 208
Expenditure ('000 rand)	1 098 036	1 152 939	1 927 109	2 394 528	3 663 326	4 578 752

Transforming human settlements

From 1994 to 2012, government built 2.7 million houses for low-income families across the country, providing shelter to an estimated 20 per cent of the population. In so doing, it has given effect to the progressive realisation of access to adequate housing as set out in the Constitution.

Government has built 2.7 million houses for lowincome families since 1994

Figure 6.3 Free housing and serviced sites, 1994/95 – 2011/12¹



1. Cumulative totals

Source: Department of Human Settlements

Informal settlement upgrading programme provides roads, lighting and sanitation Another component of government's housing policy is the informal settlement upgrading programme, launched in 2010. This gives residents the right of occupation and provides infrastructure such as roads, lighting, water and sanitation. The rural sanitation programme and a microfinance programme offering home improvement loans provide support for rural households.

Chapter 7 discusses plans to improve public transport. Effective, safe and affordable public transport reduces travel time and increases convenience for both commuters and job-seekers. Improvements in transport infrastructure strengthen links between urban and rural settlements, and reduce the costs of living and doing business.

Free basic services

Progress continues to be made in extending access to electricity, water, sanitation and refuse removal services. Government's aim is to ensure that all citizens receive at least a basic level of amenities. Drawing on international benchmarks, minimum standards of 50kWh of free electricity and 6 000 litres of water per month per household have been adopted. However, the level of free services provided to poor households varies, depending on local circumstances and municipal capacity.

The national budget contributes to the financing of household amenities through the local government equitable share, which is mainly allocated for provision of free basic services. Figure 6.4 shows the growth in allocations to the local government equitable share over the past four years.

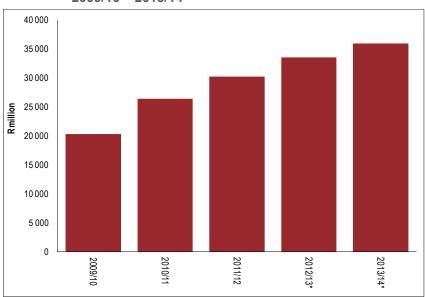
Revisions to local government equitable share formula to improve targeting of funding

Level of free services

international benchmarks

designed to meet

Figure 6.4 Allocations to local government equitable share, 2009/10 – 2013/14



*2012/13 and 2013/14 are estimates

Source: National Treasury

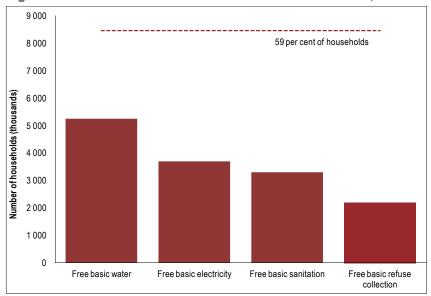
The new local government equitable share formula provides a subsidy of R275 for every household with a monthly income less than R2 300, which is about 59 per cent of all households. The previous formula for the local government equitable share targeted 47 per cent of households. Revisions

are under way that take into account varying local circumstances: some municipalities have difficulty identifying which households are eligible for free services or do not yet maintain accurate records of service provision.

While census data indicates steady progress towards universal access to electricity and clean water, achievement of free basic service standards still has some way to go. Figure 6.5 shows the estimated number of households with access to free basic water, electricity, sanitation and refuse collection services in 2011 against the 59 per cent target.

Government is making progress towards meeting targets for free basic services

Figure 6.5 Households with access to free basic services, 2011



Source: Statistics South Africa non-financial census of municipalities, 2012

The 2011 Census shows that there has been considerable population growth and internal migration over the past decade. This new data assists in improving the targeting of municipal funding. The new equitable share formula will reflect these changes and make allocations for free basic services more transparent. Municipalities need to prioritise funding for the provision and maintenance of these services.

Census results contribute to better targeting of budget allocations to municipalities

The funding and provision of infrastructure are also important requirements for continued improvement in basic service delivery. It is not possible to give households free access to services if the supporting infrastructure – such as water distribution systems – is not in place. Programmes to address infrastructure backlogs are discussed in Chapter 7.

Infrastructure backlogs must be cleared to support expanded service provision

Contributory social security

Contributory social insurance funds form part of South Africa's broad social security net. The state manages social insurance funds that pay benefits under specific circumstances. Improvements to social security, including administrative reforms and the introduction of a mandatory pension fund, are key elements in broadening social solidarity and supporting decent work opportunities.

The Unemployment Insurance Fund (UIF) provides short-term unemployment insurance to qualifying workers. It is financed by contributions worth 2 per cent of workers' salaries up to a prescribed

UIF, RAF and compensation funds pay benefits for unemployment, accident or on-the-job injury ceiling. Contributions are divided between employers and employees. As Table 6.6 shows, the UIF paid benefits of R5.6 billion to 706 000 people in 2011/12.

Table 6.6 UIF benefits and beneficiaries, 2009/10 - 2012/13

	2009/10	2010/11	2011/12	2012/13
		Outcome		Revised
Benefits (R million)				estimate
R million				
Unemployment	4 536	4 173	4 354	5 473
Illness	232	233	234	305
Maternity/adoption	625	659	708	863
Dependant	317	317	316	416
Total paid ¹	5 710	5 382	5 612	7 057
Beneficiaries (thousand)				
Unemployment	475	629	556	612
Illness	26	25	21	23
Maternity/adoption	94	105	104	114
benefits				
Dependant	16	22	25	28
Total beneficiaries	611	781	706	777

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

RAF outstanding claims represent liability of R57 billion

Road Accident Benefit Scheme proposed for consideration in Parliament The Road Accident Fund (RAF) provides compensation for injuries caused by the wrongful or negligent driving of another vehicle. The RAF is funded from a dedicated fuel levy collected by the South African Revenue Service. The fund has experienced difficulties in settling claims, mainly because of the need to apportion blame for an accident before cases can be settled. This results in long delays in settling claims and substantial expenditure on legal fees rather than benefits for accident victims. There are 250 000 claims outstanding, representing a liability estimated at R57.4 billion.

This arrangement is to be replaced by the Road Accident Benefit Scheme, which will be run on a no-fault basis with statutory limits to claim values. Proposals have been approved for public consultation, and legislation is set to be tabled in Parliament this year.

Funds established under the Compensation Fund for Occupational Injuries and Diseases Act (COIDA) (1993) and the Occupational Diseases in Mines and Works Act (1973) pay medical care and income benefits to workers who suffer an employment-related disability or illness. The funds are financed by levies on employers.

Employers operating under COIDA register either with the Compensation Fund or two independently managed arrangements – the Rand Mutual Association and the Federated Employers' Mutual Assurance – which compensate injured workers from the mining and building industries respectively. The Compensation Commissioner for Occupational Diseases in the Department of Health provides compensation to miners and former miners who have contracted lung-related diseases. At present, effective compensation services are compromised by administrative difficulties within the Compensation Fund and the Compensation Commissioner for Occupational Diseases.

Table 6.7 Social security funds, 2009/10 - 2015/16

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
		Outcome		Revised	Mediu	mates	
R million				estimate			
Unemployment Insurance							
Fund							
Revenue	14 199	13 878	15 206	17 821	18 683	20 167	21 683
Expenditure	6 581	6 435	6 780	8 881	9 600	10 799	12 237
Compensation funds							
Revenue	7 343	6 948	7 715	7 526	8 071	8 576	9 001
Expenditure	3 902	4 060	4 158	4 382	4 663	5 020	5 185
Road Accident Fund							
Revenue	11 785	14 293	16 155	18 682	21 097	23 266	25 424
Expenditure	12 221	13 810	13 047	15 213	19 370	23 761	25 471
Total: Social security funds							
Tax revenue	26 964	29 600	32 432	36 492	39 688	43 377	46 965
Non-tax revenue	6 353	5 508	6 605	7 520	8 145	8 612	9 122
Grants received	10	12	39	17	19	20	21
Total revenue	33 328	35 119	39 076	44 029	47 851	52 009	56 108
Total expenditure	22 704	24 306	23 985	28 476	33 633	39 579	42 893
Budget balance ¹	10 624	10 813	15 090	15 553	14 218	12 430	13 215

^{1.} A positive number reflects a surplus and a negative number a deficit

An interdepartmental task team on social security reform has developed proposals for consolidation and modernisation of the administration of the social security funds, as part of the phasing in of a comprehensive social security system. These reforms would include standard death and disability benefits and a basic retirement pension, financed through an earnings-related statutory contribution.

Reform proposals aim to consolidate social security administration and enhance death and disability benefits

Retirement reform

South Africa is an outlier among countries of similar income level in that it does not have a statutory requirement for pension provision, or death and disability insurance. Government is examining ways in which every working South African can be guaranteed access to these components of social security. As in many other countries, a key element of this reform would be the provision of subsidised contributions for low-income workers.

Access to social security for every working South African should be guaranteed

In the absence of a statutory requirement for retirement provision, a large number of employers provide retirement and insurance funds as a condition of employment. However, coverage of such arrangements is uneven, with workers' access to an occupational fund dependent on factors such as income, employer size and economic sector. According to research based on the 2010 Labour Force Survey, only 32 per cent of people earning below the tax threshold and only 36 per cent of workers at companies with fewer than 50 employees have access to an occupational retirement fund. Just 12 per cent of workers in construction, agriculture or domestic service are enrolled in an occupational fund.

Retirement fund coverage is poor for low-income workers and employees in small firms

Government's contribution to occupational and individual retirement arrangements is twofold: it incentivises contributions to retirement funds via the tax system, and it regulates retirement funds. The reforms described in the accompanying box on retirement reform will lay the foundation for the eventual introduction of a mandatory tier of a comprehensive social security system that provides death, disability and retirement cover to all workers.

Refined proposals on retirement reform

In 2012, the National Treasury published draft reform proposals on savings and retirement. Following public consultation, proposals in the following areas have been developed for consideration:

- Retirement funds will be required to transfer members' balances into a preservation fund when they
 change employer. Existing rules for these funds will be relaxed to allow one withdrawal per year, although
 the amount of each withdrawal will be limited. Unused withdrawals may be carried forward. The transfer of
 pension wealth resulting from divorce settlements will also be paid into preservation funds rather than
 being paid in cash. Annuitisation requirements of provident and pension funds will be harmonised.
- The tax treatment of contributions to retirement funds will be harmonised, as discussed in Chapter 4.
- Trustees will guide members through retirement, identify a default retirement product and automatically
 shift members into that product when they retire, unless members request otherwise. Living annuities will
 be eligible for selection provided that certain standards are met. Retirement funds will be encouraged to
 remove any bias on members opting to retire later than the fund's retirement age. To increase competition,
 providers other than registered life offices will be allowed to sell living annuities. The Financial Services
 Board's review of the remuneration of financial intermediaries will be strengthened.

A formal consultation process on these proposals will begin after the budget. The intention is to introduce legislation to Parliament during 2013. A paper addressing costs in the retirement industry will be published shortly.

Conclusion

Since 1994, government has significantly expanded provision of public services. While much of the state's social spending is targeted at the poorest households, it also lowers the cost of living and supports broader participation in the productive economy.

Social wage complements employment earnings and contributes to more equitable growth State-funded services cannot fully meet either social and development challenges or all the needs of households and communities. Economic growth, employment and rising wages are the main determinants of social progress and poverty reduction. Of particular importance is the need to accelerate job creation for young people.

The social wage complements employment earnings and contributes to a more equitable and inclusive economic growth path. Phasing in of NHI and further steps in social security reform will also reinforce social solidarity and the decent work agenda.