6

Social security and national health insurance

Overview

Well-designed social security and labour policies contribute to income security and economic resilience

The global economic crisis has affected living standards and employment levels in many countries, but in different ways. Where social security and labour policies are effective and well aligned, the loss of jobs and incomes has been more moderate, and economic recovery more rapid. Well-designed systems contribute to both income security and economic resilience.

South Africa confronts severe inequality and high unemployment, and seeks to improve both its social security system and the effectiveness of labour market institutions. Despite limited fiscal resources, government provides a safety net for nearly one-third of the population through the social grant programme. Contributory social security reforms and a national health insurance framework are now under consideration, alongside measures to boost job creation and improve work conditions.

Boosting long-term job creation remains an overriding objective of economic policy

Employment is the most effective route out of poverty, and boosting long-term job creation remains an overriding objective of economic policy. Over the short term, government provides temporary work through the expanded public works programme and related initiatives. Public employment services help work seekers to find jobs or training. Further education and skills development programmes are intended to bolster higher employment and productivity. But job creation has to be complemented by a well-designed social insurance framework, both as protection against unemployment and income vulnerability, and as part of the broader social wage.

The Constitution recognises that everyone has the right to fair labour practices, and to have access to health care services and social security.

Financing arrangements and the scope of statutory protection are central to the realisation of these rights. Reforming social security and health care, and the way these are financed, presents an opportunity to improve the scope and fairness of social expenditure.

Although there are many variants around the world, social security arrangements are typically built on three main pillars:

- A statutory framework for social insurance and earnings-related pensions, funded through mandatory contributions
- Regulation and encouragement of supplementary retirement savings and voluntary insurance
- Direct state assistance for those whose basic income security is at risk.

Proposed reforms to social security to be published for public consultation during 2012

This year government will publish a green paper proposing major social security reforms. The key recommendations are that the present fragmented arrangements should be replaced by an integrated contributory social security system that includes provision for a basic retirement pension, along with shared death, disability and unemployment insurance for all workers.

First steps to phase in national health insurance over the medium term

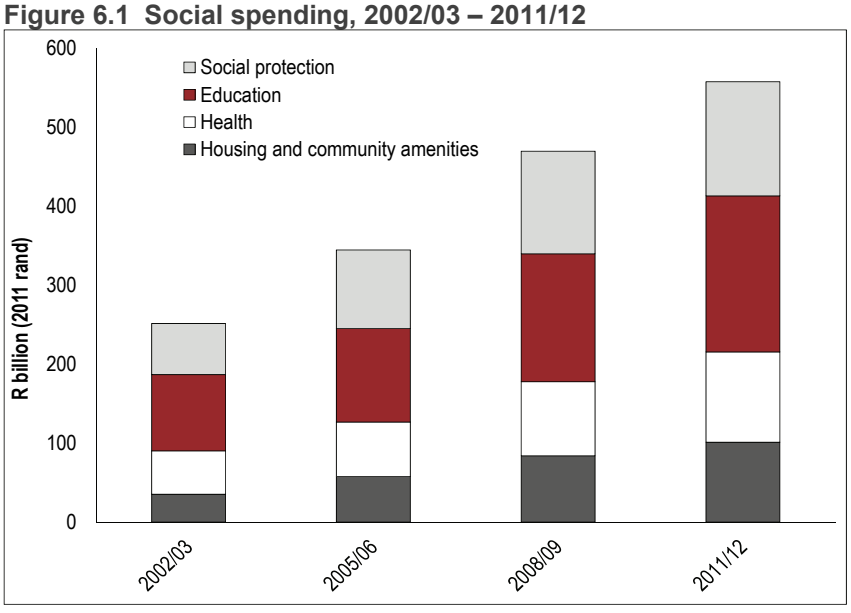
Over the medium-term expenditure framework (MTEF) period, government will take the first steps to implement national health insurance. As in the envisaged design of social security arrangements, the principle of social solidarity lies at the heart of health reforms: national health insurance coverage will extend to everyone, while its funding will be distributed on the basis of ability to pay.

Social security and labour policies

Composition of the social wage

Figure 6.1 shows how expenditure on social services, which is targeted at low-income households, has doubled in real terms over the past decade. Social spending now comprises 57 per cent of total government expenditure, compared with 49 per cent a decade ago.

Figure 6.1 Social spending, 2002/03 – 2011/12



Over the long term, government spending on social services has to complement rising employment, productivity and real wage improvements, alongside a broader contributory social security and health financing framework. These reforms need to be managed in a way that maintains long-term fiscal sustainability.

Social security and the European crisis

Two important lessons for social security design emerge from post-2008 Europe.

The first is that social security arrangements can help employers and employees adjust to an economic downturn, avoiding retrenchment, business closures and unemployment. Germany and the Netherlands undertook social security and labour market reforms prior to the 2008/09 recession that focused on flexibility in work-hours and the wage structure. These reforms helped to limit the impact of the recession on employment, for example, through subsidies to employers who kept workers in part-time employment.

In several countries, the response to the recession also included a marked increase in supplementary welfare support or subsidies to people employed in temporary or low-wage jobs. Through such measures, the Netherlands has kept unemployment below 5 per cent despite faltering economic growth. Flexible labour contracts and wage negotiations that take explicit account of economic circumstances have allowed companies to retain workers. A plan launched in 2009 focuses on enhancing job-placement services and providing apprenticeships and training schemes for young workers. By contrast, in several other countries, rigid wage structures have contributed to steep job losses and business failures.

The second lesson is that the hidden costs of unfunded social security systems can contribute to fiscal and financial instability. The difficulties of Greece, Italy and Spain arise not only from high levels of debt and unsustainable budget deficits, but also from unfunded pension commitments, and the challenge of reducing benefits or raising retirement ages to compensate for higher life expectancy and declining revenue. Many social security systems in Europe have an adverse effect on labour supply because they provide strong incentives for workers to retire at a relatively young age, even though they are still able to work. Reduced labour force participation threatens the solvency of unfunded social security arrangements.

Active labour market policies

South Africa's labour activation policies include training and skills programmes, job services and public employment

Active labour market policies help people find work and accelerate job creation. Labour activation policies include training programmes that enhance skills; incentive schemes that provide subsidies to employers, employees, entrepreneurs and new firms; public works programmes; and job-search and job-matching services. Because labour activation programmes are expensive, and demonstrate varying results, they need to be well designed and customised to meet national and local circumstances. South Africa has a range of labour activation policies:

- Training programmes have focused on expanding learnerships and apprenticeships to fast-track skills development through qualifications.
- The national skills accord reflects a commitment to increase the number of artisans, interns and apprentices, increase firms' spending on training to between 3 and 5 per cent of payroll, and strengthen the performance of further education and training colleges.
- Employment services are provided by both the public and private sector and help to create a more efficient labour market. The Department of Labour offers job-search and job-matching services at 125 labour centres across the country.
- Expanded public works programmes provide mainly short-term jobs. While progress of participants into formal employment is uneven, the programme delivers valuable income support and on-the-job learning. In rural areas, the community work programme, which provides participants with two days of work a week, has proved to be popular and cost-effective, and will expand rapidly over the period ahead.

- In 2010 the National Treasury proposed a youth employment incentive to reduce the initial cost of hiring young and inexperienced workers, and encourage firms to expand hiring. Organised labour has expressed concern that the proposal would lead to the displacement of older workers, the distortion of wage bargaining and the subsidisation of employer profits. The proposal continues to be debated in the National Economic Development and Labour Council as part of a multi-pronged strategy for youth employment.

National Planning Commission has proposed a placement subsidy to support matric graduates

The National Planning Commission's proposed national development plan recommends several policies to improve labour market efficiency and speed up job creation. These include a placement subsidy to get matric graduates into work, staff retention schemes that offer short-time work during periods of low demand, and a more open approach to skilled immigration to boost the supply of high-skilled workers in the short term.

Social security and retirement reform

Government's proposed social security reforms are intended to establish a fair and sustainable system that provides adequate protection for all South Africans, while continuing to encourage supplementary savings and risk protection by those with higher incomes and/or diverse needs.

A mandatory statutory fund would provide pensions, life insurance and disability benefits

The main proposal is to establish a mandatory statutory fund to provide pensions, life insurance and disability benefits. In the absence of such a fund, a large number of occupational and voluntary schemes have been established, but many workers – primarily low-income earners – are inadequately protected. The proposed national social security fund will be based on the principle of social solidarity: risk will be shared across the workforce and the state will stand behind the fund.

Savings and reform of the retirement landscape

Too few South Africans receive an adequate income in retirement. Many are unable to put enough money aside for their future or do not have access to appropriate savings vehicles. The introduction of mandatory contributions to a public pension fund will address some of these issues. The structure of the retirement industry itself, however, contributes to retirees' low income-replacement rates. There are four principal concerns:

- **Inadequate lifetime savings**: Many households maintain unsustainable consumption levels, and do not save enough to provide for economic shocks and post-retirement needs.
- **Low levels of preservation and portability**: Workers often withdraw their retirement savings when they change jobs rather than moving their accumulated funds to a new employer or preservation fund.
- **High fees and charges**: Pension, provident and retirement annuity funds impose fees and administrative charges on their members' savings. In some cases, these fees are excessive and substantially reduce the value of member benefits.
- **Low levels of annuitisation**: At retirement, members of provident funds seldom convert the lump sum they receive into an annuity. As a result, they risk outliving their savings. Annuities, which pay a guaranteed monthly income until death, are the best way of mitigating this risk, but certain products incur high up-front costs or management fees, and do not offer value for money to workers who do not expect to live long after retirement.

Alongside reform of the social security system, government seeks to encourage higher voluntary savings and improved retirement provision. Proposed reforms include mandatory preservation and portability, harmonisation of the tax treatment of contributions to retirement funds, reform of the annuities market and better incentives for saving. There will be consultation with trade unions, industry and other interested parties during 2012.

Over time, government proposes to introduce several other reforms:

- Means test thresholds for social assistance will be raised and grant values aligned with personal income tax rebates, increasing support for low-income households and streamlining grant system administration.
- There will be an institutional consolidation across current social security arrangements, enabling coherent policy-making, administrative efficiency, and effective regulation and oversight.
- Higher-income earners will be encouraged to contribute to approved supplementary pension and insurance plans, in addition to their national social security fund contributions.
- The health-related benefits provided by the Compensation Funds and the Road Accident Fund (RAF) will be aligned with national health insurance funding arrangements as the latter is implemented over time.

National health insurance

First five years of national health insurance will focus on strengthening the public health system

Government's green paper on national health insurance, released in 2011, sets out the principles and direction of proposed reforms. Within this framework, a wide range of technical, operational and financial aspects require further elaboration. Recognising the cost and complexity of these plans, the green paper proposes a 14-year transition over three phases. The first five years will focus on strengthening the public sector in preparation for the new system.

Financing health care

Table 6.1 shows that South Africa spent about R258.4 billion (8.6 per cent of GDP) on health services in 2011/12, split about equally between public and private expenditure. Provincial health departments are the largest public providers of health services. Private health spending is largely paid or reimbursed by medical schemes.

Over the medium term, general taxes will remain the primary financing mechanism for the public health system and national health insurance pilot projects. Over the longer term, new sources of financing will be required to fill the funding gap associated with improved access to more comprehensive health services. Funding options could include a payroll tax (payable by both employees and employers), a higher value-added tax (VAT) rate or a surcharge on taxable income, or some combination of these.

Financing requirement will depend on progress of institutional reforms and health service delivery capacity

It is expected that an additional revenue source will be needed in 2014/15 amounting to about R6 billion in that year, which is not currently provided for in the MTEF. Longer-term financing requirements will depend on the progress of institutional reforms and health service delivery capacity, and cannot yet be reliably determined. Preliminary modelling suggests that full implementation of national health insurance by 2025 may require public health financing to rise from about 4 per cent of GDP at present to 6 per cent. Alongside options for increased tax revenue, the role of user charges is also being investigated. A discussion paper on revenue options will be released later this year, together with a review of associated transition issues, including the role of medical schemes.

Table 6.1 Health expenditure in public and private sectors, 2008/09 – 2013/14

R million	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	Annual real change 2008/09 – 2013/14
Public sector							
Department of health[1]	1 436	1 645	1 736	1 784	1 864	1 961	0.9%
Provincial departments health	75 120	88 593	98 066	110 014	119 003	126 831	5.3%
Defence	2 177	2 483	2 770	2 961	3 201	3 377	3.6%
Correctional services	282	300	318	339	356	374	0.4%
Local government (own revenue)	1 793	1 829	1 865	1 977	2 096	2 221	-1.0%
Workmens' compensation	1 415	1 529	1 651	1 718	1 804	1 894	0.5%
Road Accident Fund	797	740	860	980	1 029	1 080	0.8%
Education	2 134	2 350	2 503	2 653	2 812	2 981	1.4%
Total public sector health	**85 154**	**99 469**	**109 769**	**122 426**	**132 165**	**140 719**	**4.9%**
Private sector							
Medical scheme	74 089	84 863	90 973	98 069	105 718	113 964	3.4%
Out-of-pocket	15 429	16 200	17 172	18 202	19 294	20 452	0.3%
Medical insurance	2 452	2 660	2 870	3 094	3 336	3 596	2.4%
Employer private	1 172	1 271	1 372	1 479	1 594	1 718	2.4%
Total private sector health	**93 142**	**104 994**	**112 387**	**120 844**	**129 942**	**139 730**	**2.9%**
Donors or NGOs	5 212	6 319	5 787	5 308	5 574	5 853	-2.9%
Total	**183 508**	**210 782**	**227 943**	**248 578**	**267 681**	**286 302**	**3.7%**
Total as % of GDP	8.0%	8.6%	8.3%	8.3%	8.1%	7.9%	
Public as % of GDP	3.7%	4.1%	4.0%	4.1%	4.0%	3.9%	
Public as % of total government expenditure (non-interest)	13.0%	13.0%	13.6%	13.7%	13.6%	13.4%	
Private financing as % of total	50.8%	49.8%	49.3%	48.6%	48.5%	48.8%	
Public sector real rand per capita 10/11 prices	2 300	2 512	2 635	2 812	2 812	2 816	
Public per family of four per month real 10/11 prices	767	837	878	922	937	939	

1. Includes selected public entities

Pooling

Transition to comprehensive health insurance involves a consolidation of funding pools and broadening of coverage

Pooling refers to the financing arrangements through which health services can be pre-funded and risks shared. There are several broad models internationally. The UK, Australia and Canada have single-payer arrangements, although purchasing and provision networks are typically geographically decentralised. Countries using multi-payer systems with some form of risk equalisation between funds include Germany, the Netherlands, Japan and South Korea. The transition to an integrated comprehensive health insurance system typically takes several decades, involving a progressive consolidation of funding pools and broadening of health service coverage.

The national health insurance green paper favours a single-payer option to maximise purchasing power and promote equity. The green paper suggests that a new public fund be established towards the end of the first five-year phase; its capacity would be built up within the department before being launched as a separate public entity.

At present, there are about 100 private medical schemes in South Africa. Government sponsors several medical schemes for public service employees and contributes to medical plans for retired civil servants. Still to be considered is the future role and possible consolidation of these funds within the national health insurance framework. The green paper envisages a supplementary role for medical schemes in future, but the details of this transition and its financial implications will need to be carefully planned.

Purchasing

The new system will separate two functions: payment for and provision of services

In a health insurance system, there is a separation between payment for and provision of services. At present, in the public sector, these functions are not separated, whereas in an insurance arrangement, the fund pays for services rendered by hospitals or doctors, but does not own or employ them. The separation of these functions is complex and will require reorganisation of public health services and financial management.

Benefits will initially mirror the package of services provided by a typical set of public health facilities

In the early years, public purchasing authorities will contract primarily with public providers, but over the long term more private providers will become involved. Because strengthening primary health care will be a focus of national health insurance during the first five-year phase, district health authorities will be the main purchasers of primary care services. The benefit package will initially resemble the package of services provided by a typical set of public health facilities. Other benefits may be added, over time, based on specific clinical, health and economic evaluations.

The gradual separation of the purchasing and provision functions within the public sector will be accompanied by new models of contracting and reimbursement. The purchasing arm will develop volume, price and quality-level agreements with public hospitals. Drawing on international experience in such systems, new forms of reimbursement will be introduced that will match hospital workload with funding levels, for example. Various models of capitation – in which service providers are paid a set fee per patient – will be piloted at the primary care level.

Piloting national health insurance

In 2012/13, pilot sites will be established in selected districts to begin laying the foundations of national health insurance – improved facilities, skilled managers and re-engineering of primary health care. A new conditional grant for these pilot projects is established in the 2012 Budget, with allocations amounting to R150 million, R350 million and R500 million over the MTEF period. The pilot projects will provide practical lessons on the new models for primary care services, including:

- Municipal ward-based primary health care. There will be a greater role for doctors and community health workers in disease prevention.
- District-based clinical specialist support teams. Integrated teams of specialists (obstetricians, gynaecologists, family physicians, anaesthetists, midwives and nurses) will provide clinical services at this level. In particular, pregnant women and women who have recently given birth, as well as children, are expected to benefit from the greater involvement of specialists at primary level.
- School-based primary health care. Professional nurses will be responsible for immunisation, curative services and health promotion in schools.

The *national health insurance conditional grant* will serve as an interim funding mechanism. It is likely to last about five years until a permanent funding stream for the new system is established.

Provision

A need to level the playing field for public and private health service providers

Internationally, consumers of national health insurance services exercise choice between service providers, within a common funding framework. This requires a level playing field between public and private providers for standards, reimbursement and tax treatment. At present, the organisation and cost structure of public and private health services in South Africa differ markedly. This limits the scope and affordability for national health insurance contracting with private providers in the early years, and underlines the importance of investing in public health facilities.

Five public hospitals to be strengthened in public-private partnerships over the MTEF period

Strengthening public hospitals is a key component of national health insurance. Five hospitals will be prioritised in the first phase of a public-private partnership programme for improving health facilities: Chris Hani Baragwanath, George Mukhari Hospital, Limpopo Academic Hospital, King Edward VIII Hospital and Nelson Mandela Academic Hospital. Part of the *hospital revitalisation grant* has been allocated to these projects over the MTEF period. Implementation will begin once feasibility studies have been completed and plans approved.

As national health insurance progresses, the public sector will need to recruit more doctors and nurses, and expand contracting with selected general practitioners. Similar arrangements, for example with private pharmacies or for trauma services, will be phased in over time.

The establishment of the Office of Standards Compliance will improve monitoring and raise standards across all health facilities. The office, currently functioning in the Department of Health, is expected to be established as an independent public entity in 2012/13.

Social assistance

Nearly 15.3 million people now benefit directly from social grants

The social assistance programme is government's most direct means of combating poverty. At the end of 2011, nearly 15.3 million people were eligible for social grants, up from 2.5 million in 1998. Although grants are targeted to assist potentially vulnerable members of society – the young, the old and the disabled – more than half of all households benefit from social assistance.

Social grants

Child support is the largest grant by number of beneficiaries

The social grant system has been expanded in recent years by extending the *child support grant* to a child's 18th birthday, while the age at which men are eligible for the *old age grant* has been reduced from 65 to 60. A higher *old age grant* for those over 75 was introduced in 2011, and the means test threshold for the *old age grant* and *disability grant* was increased significantly in the same year.

In 2012/13, R104.9 billion is allocated to social assistance, rising to R122 billion in 2014/15. The number of grant recipients is set to rise from 15.6 million in 2011/12 to 16.8 million in 2014/15.

Table 6.2 shows the cost-of-living adjustments for grants in 2012/13. The *old age*, *war veterans*, *disability*, and *care dependency* grants will increase by R60 in line with inflation. The *foster care grant* will increase by R30.

Table 6.2 Social grants values, 2011/12 and 2012/13

Rand	2011/12	2012/13	Increase
State old age grant	1 140	1 200	60
State old age grant, over 75s	1 160	1 220	60
War veterans grant	1 160	1 220	60
Disability grant	1 140	1 200	60
Foster care grant	740	770	30
Care dependency grant	1 140	1 200	60
Child support grant[1]	265	280	15

1. R265 average value for 2011/12

Social assistance beneficiary and expenditure trends

Table 6.3 shows the growth in grant recipients by grant type and province since 2008/09. Table 6.4 sets out grant expenditure since 2008/09 and spending forecasts over the MTEF period.

Table 6.3 Social grants beneficiary numbers by type and province, 2008/09 – 2014/15

Thousands	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	% Growth per year
		Actual		Revised estimate		Projected		
Type of grant								
Old age	2 344	2 490	2 647	2 724	2 773	2 835	2 881	3.5%
War veterans	2	1	1	1	1	1	1	-10.9%
Disability	1 372	1 299	1 212	1 216	1 192	1 196	1 196	-2.3%
Foster care	476	489	490	598	671	769	874	10.7%
Care dependency	107	119	121	126	131	141	147	5.4%
Child support	8 765	9 381	10 154	10 903	11 301	11 549	11 659	4.9%
Total	**13 066**	**13 779**	**14 625**	**15 568**	**16 069**	**16 491**	**16 758**	**4.2%**
Province								
Eastern Cape	2 347	2 416	2 544	2 677	2 827	2 904	2 955	3.9%
Free State	766	806	869	934	957	979	991	4.4%
Gauteng	1 538	1 702	1 815	1 955	2 093	2 147	2 181	6.0%
KwaZulu-Natal	3 315	3 456	3 633	3 838	3 963	4 076	4 151	3.8%
Limpopo	1 894	1 974	2 100	2 167	2 221	2 280	2 317	3.4%
Mpumalanga	978	1 009	1 069	1 202	1 232	1 264	1 283	4.6%
Northern Cape	327	348	373	414	426	436	442	5.2%
North West	1 015	1 071	1 103	1 154	1 095	1 124	1 143	2.0%
Western Cape	886	997	1 119	1 227	1 255	1 281	1 295	6.5%
Total	**13 066**	**13 779**	**14 625**	**15 568**	**16 069**	**16 491**	**16 758**	**4.2%**

1. Projected numbers at fiscal year end

Source: Provincial budgets and expenditure review / Socpen system

- Average annual growth in the number of grant recipients was 6 per cent over the four years to 2011/12. The number of beneficiaries is projected to increase at an average rate of 2.5 per cent a year over the medium term.
- Social assistance expenditure increased at an average annual rate of 11 per cent between 2008/09 and 2011/12, and is projected to increase by 8 per cent per year over the MTEF period.

- In 2011/12 the *child support grant* was the largest programme by number of beneficiaries (almost 11 million) and the *old age grant* was the largest by expenditure (R37.3 billion).
- Almost 600 000 caregivers receive *care dependency* or *foster care* grants. The number of *foster care* beneficiaries grew at an annual rate of 7.9 per cent between 2008/09 and 2011/12, and is projected to grow at an annual average of 13.5 per cent over the next three years as a result of the growing number of orphans associated with the impact of Aids.
- More than 2.7 million people receive the *old age grant*.
- There has been an 11.4 per cent reduction in the number of *disability grant* beneficiaries between 2008/09 and 2011/12, largely as a result of an improved assessment process.

Table 6.4 Social grants expenditure by type and province, 2008/09 – 2014/15

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	% Growth
		Actual		Revised estimate		Projected		per year
R million								
Old age	25 934	29 826	33 751	37 318	39 323	42 526	45 823	10.0%
War veterans	20	17	14	12	13	10	11	-9.8%
Disability	16 474	16 567	16 840	17 834	19 152	20 410	21 992	4.9%
Foster care	3 934	4 434	4 616	5 245	5 952	6 216	6 697	9.3%
Care dependency	1 292	1 434	1 586	1 948	1 857	2 107	2 270	9.9%
Child support	22 348	26 670	30 342	34 036	38 237	41 553	44 774	12.3%
Grant-in-aid	90	146	170	192	188	203	219	15.9%
Social relief of distress	623	165	174	118	165	183	197	-17.5%
Total	**70 715**	**79 260**	**87 493**	**96 703**	**104 888**	**113 208**	**121 982**	**9.5%**
Province								
Eastern Cape	12 557	13 914	15 281	16 761	18 119	19 556	21 073	
Free State	4 573	5 055	5 530	6 234	6 698	7 229	7 790	
Gauteng	8 289	9 390	10 539	11 871	13 030	14 063	15 153	
KwaZulu-Natal	17 590	19 454	21 308	23 507	25 301	27 307	29 424	
Limpopo	9 656	10 855	11 986	12 318	14 111	15 231	16 410	
Mpumalanga	4 943	5 567	6 024	7 431	7 558	8 157	8 790	
Northern Cape	5 711	2 227	2 497	2 816	3 021	3 260	3 514	
North West	1 962	6 366	6 869	7 241	7 851	8 474	9 131	
Western Cape	5 434	6 432	7 460	8 524	9 199	9 930	10 698	
Total	**70 715**	**79 260**	**87 493**	**96 703**	**104 888**	**113 208**	**121 982**	

Source: Socpen system

South African Social Security Agency

The South African Social Security Agency (SASSA) administers the social assistance system. Progress has been made in turning around its financial position: in 2010/11 SASSA posted a surplus of R463 million, bringing down the accumulated deficit to R137 million. The remaining deficit is likely to be cleared by the end of 2011/12.

Spending on social grants will decline as a percentage of GDP over the medium term as no new increases are planned

Despite rapid growth in the number of beneficiaries in recent years, spending on social grants will decline as a percentage of GDP from 3.5 per cent in 2011/12 to 3.2 per cent over the MTEF (see Table 6.5). This is because there are no major grant increases planned over the medium term and because economic growth is expected to outpace growth in the number of recipients.

SASSA has reduced the average turnaround time for new grant applications to nine days and is working to bring down the cost of grant payments. It is encouraging beneficiaries to open bank accounts: at present 40 per cent of beneficiaries access their grants at banks or the post office at a much lower cost than if they were to receive a cash payment. A new tender has been awarded for cash payments that will sharply reduce the unit cost per payment.

An inspectorate has been set up to improve oversight of social grant payments

As a result of these measures, SASSA's administrative costs are expected to decline from 6.1 per cent of grant expenditure to 5.4 per cent over the next three years. Steps are also being taken to strengthen social grants administration. An Inspectorate of Social Security has been set up to improve oversight of grant payments, and plans are under way to automate the application process.

Table 6.5 Social grant trends as a percentage of GDP

R million	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
		Actual		Revised estimate		Projected	
Grants	70 715	79 260	87 493	96 703	104 888	113 208	121 982
Administration	4 700	5 254	5 768	6 238	6 309	6 645	6 994
Total	**75 415**	**84 514**	**93 261**	**102 941**	**111 197**	**119 853**	**128 976**
Administration as % of total	*6.2%*	*6.2%*	*6.2%*	*6.1%*	*5.7%*	*5.5%*	*5.4%*
GDP (R billion)	2 304	2 440	2 754	2 996	3 301	3 622	3 997
Total as % of GDP	*3.3%*	*3.5%*	*3.4%*	*3.4%*	*3.4%*	*3.3%*	*3.2%*

1. Administration includes SASSA, payment contractors and appeals tribunal

Social welfare

The Department of Social Development and provincial departments work with non-governmental organisations on a range of social welfare initiatives. Major projects include the early childhood development programme, the victim empowerment programme and Isibindi, a community scheme to help poor children.

Early childhood development subsidy to be increased, supporting an increase to 580 000 beneficiaries

The early childhood development subsidy will increase in 2013/14. Additional funding has been made available to raise the number of beneficiaries from 500 000 to 580 000, to improve facilities and to provide learning materials. Additional early childhood development centres will be established, salaries for practitioners will be improved and more stringent monitoring of programmes established.

Under the Isibindi programme, some 10 000 unemployed people will be trained to become child and youth care workers. They will help orphans and vulnerable children in their homes and schools, and with health and general government services. The programme will benefit an estimated 858 000 children, particularly in rural communities.

Social security funds

Social insurance funds provide benefits under specific circumstances:

- The Unemployment Insurance Fund (UIF) provides short-term unemployment insurance to qualifying workers.
- The funds established under the Compensation Fund for Occupational Injuries and Diseases Act, and the Occupational Diseases in Mines and Works Act, pay medical care and income benefits to workers who suffer a disability or illness related to their employment.
- The RAF provides compensation for losses incurred due to injuries caused by the wrongful or negligent driving of another vehicle.

The financial position of these funds is reflected in Table 6.6.

Table 6.6 Social security funds, 2008/09 – 2014/15

R million	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
	Outcome			Revised estimate	Medium-term estimates		
Unemployment Insurance Fund							
Revenue	13 691	14 199	14 865	15 769	17 028	18 120	19 196
Expenditure	4 636	6 581	6 435	8 159	9 166	10 040	11 029
Compensation Funds							
Revenue	6 860	7 334	6 950	7 224	7 785	8 374	9 025
Expenditure	3 451	3 893	4 065	3 175	3 470	3 612	3 764
Road Accident Fund							
Revenue	11 865	11 785	14 293	15 733	17 662	19 695	21 798
Expenditure	11 966	12 221	13 810	13 883	16 748	18 991	21 026
Total: Social security funds							
Tax revenue	23 288	26 956	29 602	32 104	35 180	38 310	41 599
Non-tax revenue	6 619	6 353	6 494	6 583	7 279	7 860	8 399
Grants received	2 509	10	12	39	17	19	20
Total revenue	**32 416**	**33 319**	**36 108**	**38 726**	**42 475**	**46 189**	**50 019**
Total expenditure	**20 054**	**22 695**	**24 311**	**25 216**	**29 385**	**32 643**	**35 818**
Budget balance[1]	**12 362**	**10 624**	**11 797**	**13 510**	**13 091**	**13 546**	**14 201**

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

Unemployment Insurance Fund

Annual growth in UIF claims is expected to slow over the medium term

For the first nine months of 2011/12, the number of new claimants for UIF benefits averaged 59 924 a month.

Average monthly benefit payments amounted to about R481 million to 214 556 beneficiaries, compared with 207 646 beneficiary payments a month over the same period in 2010/11. Benefit expenditure increased at an average annual rate of 20.7 per cent between 2008/09 and 2011/12 as a result of the economic downturn. Periods of unemployment have been lasting longer, and there has been an increase in higher-income claimants. Annual growth in claims is expected to slow to about 13 per cent over the medium term.

Table 6.7 UIF benefits and recipient numbers, 2008/09 – 2011/12

	2008/09	2009/10 Outcome	2010/11	2011/12 Revised estimate
Benefits (R million)				
Unemployment	2 834	4 536	4 173	5 244
Illness	212	232	233	473
Maternity/adoption	538	625	659	1 103
Dependant	264	317	317	652
Total paid[1]	**3 848**	**5 710**	**5 382**	**7 472**
Beneficiaries (thousand)				
Unemployment	475	629	582	640
Illness	26	25	29	31
Maternity/adoption	94	105	108	119
Dependant	16	22	20	22
Total beneficiaries	**611**	**781**	**739**	**812**

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

The UIF also supports initiatives to boost employment. In 2009, the fund invested R1.2 billion in the training layoff scheme to protect workers at risk of retrenchment. By the end of December 2011, the scheme had assisted 17 companies and 4 221 workers. The UIF also supported the Industrial Development Corporation's issuance of bonds to stimulate industrial employment and has sponsored training programmes.

Compensation Fund

Compensation Fund has shortened turnaround time for benefit claims

The Compensation Fund is administered by the Department of Labour. It derives its revenue from levies paid by employers on the basis of the annual earnings of their employees. The fund registered 215 493 claims during 2010/11, of which 144 081 were finalised. The remaining 33 per cent are claims where the medical condition of the employee has not yet stabilised, and will only be assessed in the next financial year. Fewer payments were made in 2010/11 (329 091 compared with 340 159 in 2009/10), but the rand value of claims was 4 per cent higher at R802 million. Over the past few years, the Compensation Fund has shortened turnaround time for benefit claims.

Compensation for occupational diseases

Government's compensation arrangements continue to be split between several entities. The Compensation Commissioner for Occupational Diseases, administered under the Department of Health, compensates about 3 500 former mine workers for occupational lung disease. The Department of Health is investigating the possibility of outsourcing some of this body's functions to Rand Mutual, which operates the compensation dispensation in the mining industry on behalf of the Compensation Fund.

Road Accident Fund

RAF levy will be increased by 8c to 88c/l

The RAF is funded from a dedicated fuel levy collected by the South African Revenue Service. The levy will be increased by 8c to 88c/l on 1 April 2012.

The RAF's surplus grew to R1.9 billion in 2011/12 due to a fall in the number of claims finalised caused by a delay in implementing a new operating model. As a result, outstanding claims increased by about 35 500 in 2009/10 to 244 652 in 2010/11, equating to a liability of R49 billion in 2011/12. Provision for outstanding claims will be reduced over the MTEF period as the fund's processing capacity increases, and as the provisions of the RAF Amendment Act (2005) come into effect. The act limits liability for certain types of claims and places a cap on compensation.

Legislation for no-fault insurance plan is being prepared for public consultation

It is expected that the Road Accident Benefit Scheme, which will operate on a no-fault basis, will eliminate the need for legal costs associated with claims, and accelerate processing and payment. The policy was approved by Cabinet in 2011 and the legislation is being finalised for public consultation. The scheme will shift the focus towards health care and be more closely aligned with other social security arrangements.

Conclusion

Proposals complement initiatives to support job creation and economic participation over long term

Government is committed to a major restructuring of South Africa's social protection arrangements that will eliminate gaps in coverage, improve service delivery and roll out national health insurance. These reforms give expression to the principle of social solidarity: all South Africans will benefit from new arrangements and risk will be shared.

Social security and health financing reforms are also key elements in improving the social wage – improved access to social insurance enhances workplace earnings and contributes to fairer labour standards on affordable terms. Better social protection complements initiatives to support job creation and economic participation, which provide a sustainable route to reducing poverty and inequality.