7

Social security and health care financing

Overview

In the face of persistent high unemployment and difficult economic conditions, the social security system has continued to play a crucial role, providing income support for retrenched workers and helping to alleviate poverty. Social assistance reaches nearly 15 million people and benefits millions of others in beneficiary households. Social security promotes inclusion by ensuring that people who are unable to work, either permanently or temporarily, remain active in their communities.

Social security promotes a more inclusive society

Social security is part of the social wage, which includes access to housing, transport, sanitation, health services and basic infrastructure. In addition to its traditional role of providing citizens with a safety net, social security must also work hand-in-hand with policies to create jobs and raise standards of employment. Social security should not cultivate dependency, nor act as a disincentive to look for work.

The social wage includes social security and access to housing, transport, health and sanitation services

South Africa's social security arrangements are being reformed. The goal of these efforts is a fully functioning system that will support workers when they are out of work, and help to get them back into employment. It will provide income security in old age, and family support in the event of disability and death. It will help children to stay in school so that they can live full, productive lives. And it will complement programmes to increase employment and bring about sustainable social development.

To provide timely assistance for those in need, and to fulfil the longer-term objectives described above, South Africa's social security institutions need to become more efficient, ensuring the effective use of funds and providing better service. As part of the broader reforms under way, government proposes, over time, to consolidate administrative

To encourage efficiency, administrative capacity will be consolidated across agencies arrangements for social security. The aim is to ensure that workers' contributions are not consumed by separate bureaucracies or drained by operational inefficiencies. Establishing coordinated policy-making across these entities will help to make their programmes more effective.

Financial and operational reforms at UIF and RAF show significant progress

While there are considerable institutional challenges to social security reform, significant progress has been made this year in developing proposals for the new Road Accident Benefit Scheme, which will expand access, improve administration, reduce legal and compliance costs, and align this fund to other social security arrangements. The Unemployment Insurance Fund (UIF) has also demonstrated the benefits of effective reforms. Over the past five years the UIF has improved its financial position, and is now able to improve benefits to retrenched workers even as it contends with elevated levels of unemployment.

Social security and employment

Social security provides income support, and the system also needs to help get people back to work

South Africa's economy is growing again, but the economic climate remains challenging and employment has not yet recovered. Social security provides essential support to workers who have lost their income – and it is equally important that the system helps get people back to work.

The relationship between social security and employment is central to the operations of the UIF. Employees and employers contribute in equal proportion to the fund every month. If workers are retrenched, they receive benefits based on their final salary, providing them and their families with a moderate income while they seek to return to work. Moreover, when they collect their unemployment benefits, work seekers are registered at government labour centres and have access to job-search services.

Medical rehabilitation is a key component of RAF and Compensation Funds support

The Compensation Funds, which are funded by employers, also fulfil a dual function: they pay benefits to workers injured on the job, and they fund medical treatment and rehabilitation that allow employees to return to work at the earliest opportunity. Rehabilitation is also an important component of the RAF benefit.

Social assistance

Nearly 15 million people – more than a quarter of the population – receive social grants

There are now almost 15 million people receiving social grants in South Africa – which is more than a quarter of the population and over six times the number of grant beneficiaries in 1998. Social assistance will contribute R97.6 billion to household income in 2011/12, representing a substantial and enduring programme of poverty alleviation.

Social grants and household welfare

Income support makes a tangible difference to households with little or no income, along with in-kind transfers, fee waivers, subsidies and other benefits that form part of the social wage. At present:

- More than 10 million people receive *child support grants*, and nearly 440 000 caregivers receive *care dependency* or *foster care* grants
- Almost 2.6 million older persons receive a non-contributory pension

- 7.1 million children are exempt from school fees
- 432 727 preschool children are subsidised in early childhood development centres
- 8.1 million children benefit from the school feeding programme
- Comprehensive health services are available to all children
- Primary health care is available free of charge for all residents, and tertiary care is provided at minimal cost to adults.

Reforming the means test

Social grants means tests are intended to ensure that support is provided to beneficiaries who need it, and that social assistance is both fair and financially sustainable. But the tests have several drawbacks:

- They are complicated.
- They prevent poor households whose income is marginally above threshold from receiving support.
- They increase administrative costs.
- They can have adverse consequences on people's behaviour – for example, by creating an incentive for older workers to divest their assets and liquidate savings prior to retirement.

The means test threshold for the *child support grant* is set at 10 times the value of the grant. At or below that level, recipients receive the full grant. The means test for the *old-age grant* and the *disability grant* operates differently. Up to a certain income – the "disregard level" – recipients get the full grant. The grant level falls as incomes rise above the disregard level. Above the means test threshold, no grant is payable. The adult grants also impose asset thresholds. Recipients cannot own assets worth more than 40 times the value of the grant (R518 400 in 2010/11).

In 2010/11, the disregard level was R7 272 and the means test threshold was R31 296. Someone earning at the means test threshold was entitled to a grant of R100 per month. The budget for 2011/12 will raise the disregard level to R13 680, the means test threshold to R44 880 and the asset threshold to R547 200.

It is expected that the disregard level and the means test threshold will be raised in subsequent budgets until the means test threshold is in line with the tax threshold. This reform will benefit households with limited means, and alignment with the tax threshold will reduce administrative complexity.

Child support grant has been extended and eligibility for the old-age grant has increased

Since 1998 social grants have increased both in reach and value. Over this period eligibility for the *child support grant* has been progressively extended. The grant initially supported children in poor households up to the age of seven; as of 2013/14 children will be eligible for the grant up to their 18th birthday. Eligibility for the *old-age grant* has also increased following the equalisation of the age at which men and women receive the grant, which was completed in 2010.

Table 7.1 shows the cost-of-living adjustments for all grants in 2011/12. The means test thresholds for the *old-age* and *disability grants* will also be raised, as discussed in the accompanying box, and the old-age grant will be increased by an additional R20 a month for recipients over the age of 75.

Table 7.1 Social grants values, 2010/11 and 2011/12

Rand	2010/11	2011/12	Increase
State old-age grant	1 080	1 140	60
State old-age grant, over 75s	1 080	1 160	80
War veterans grant	1 100	1 160	60
Disability grant	1 080	1 140	60
Foster care grant	710	740	30
Care dependency grant	1 080	1 140	60
Child support grant[1]	250	270	20

1. Increase of R10 in April and R10 in October.

South African Social Security Agency

SASSA has nearly halved its deficit this year

The South African Social Security Agency (SASSA) administers the social grant system. Over the past year SASSA has reduced its deficit from R884 million in 2009/10 to a projected deficit of R460 million in 2010/11. It is hoped that the agency will clear its operating deficit in 2011/12. SASSA's baseline allocation, as shown in Table 7.2, will increase from R5.6 billion in 2010/11 to R6.1 billion in 2011/12. SASSA has extended its contracts with external cash disbursement businesses to September 2011. Over the next six months, SASSA is developing a new social grant payment system that will aim to ensure:

- Security of funds – As far as possible, grants should be transferred electronically and kept in accounts at regulated organisations
- Accessibility of funds – Beneficiaries should be able to access their funds anywhere and at any time
- Cost effectiveness for both government and beneficiaries.

Successful implementation of the new payment model in 2011/12 will free up considerable resources for SASSA to achieve its broader mandate of integrating social security administration.

Table 7.2 SASSA expenditure, 2007/08 – 2013/14

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
		Actual		Revised		Medium-term estimates	
R million				estimate			
Social grants transfers	62 467	70 715	79 260	88 268	97 560	106 256	114 409
SASSA administration	4 143	4 630	5 169	5 631	6 144	6 200	6 540
Total	**66 610**	**75 345**	**84 429**	**93 899**	**103 704**	**112 456**	**120 949**
Percentage of GDP	*3.2%*	*3.3%*	*3.5%*	*3.5%*	*3.6%*	*3.5%*	*3.4%*

Source: Estimates of National Expenditure

Social assistance beneficiary and expenditure trends

Beneficiary numbers have grown by 6.4 per cent on average over past six years

Table 7.3 shows the growth in social grant beneficiary numbers by grant and province since 2007/08. Table 7.4 sets out grant expenditure since 2007/08 and spending forecasts over the medium-term expenditure framework (MTEF) period.

- The average annual growth in the number of beneficiaries was 6.4 per cent over the six years to 2010/11.
- The *child support grant* is the largest by number of recipients, accounting for 69 per cent (over 10 million children) in 2010/11; the *old-age grant* is the largest by expenditure (R33.8 billion in 2010/11).
- The number of foster care beneficiaries grew at the annual rate of 12.1 per cent, largely as a result of a growing number of orphans associated with the impact of Aids, and courts' enhanced capacity to provide oversight under the Children's Act (2005).
- There has been a 1.2 per cent average reduction in *disability grant* beneficiaries, largely as a result of SASSA's improved review process.
- Social assistance grants expenditure is projected to increase at an average annual rate of 10.6 per cent between 2010/11 and 2013/14.

Table 7.3 Social grants beneficiary numbers by type and province, 2007/08 – 2013/14

Thousands	2007/08	2008/09	2009/10	2010/11[1]	2011/12	2012/13 Projected	2013/14	% Growth per year
Type of grant								
Old-age	2 219	2 344	2 490	2 647	2 729	2 786	2 844	4.2%
War veterans	2	2	1	1	1	1	1	-17.7%
Disability	1 413	1 372	1 299	1 233	1 265	1 290	1 315	-1.2%
Foster care	443	476	489	554	613	709	820	10.8%
Care dependency	102	107	119	121	128	135	141	5.6%
Child support	8 196	8 765	9 381	10 336	10 977	11 303	11 589	5.9%
Total	**12 375**	**13 066**	**13 779**	**14 892**	**15 713**	**16 223**	**16 709**	**5.1%**
Province								
Eastern Cape	2 292	2 347	2 416	2 569	2 738	2 797	2 847	3.7%
Free State	756	766	806	895	927	957	987	4.5%
Gauteng	1 452	1 538	1 702	1 842	1 917	1 993	2 092	6.3%
KwaZulu-Natal	3 033	3 317	3 454	3 692	3 868	4 004	4 130	5.3%
Limpopo	1 799	1 894	1 974	2 140	2 299	2 336	2 379	4.8%
Mpumalanga	925	978	1 009	1 072	1 159	1 181	1 201	4.4%
Northern Cape	307	327	348	388	413	436	454	6.8%
North West	980	1 015	1 071	1 137	1 170	1 210	1 236	3.9%
Western Cape	831	886	997	1 156	1 222	1 308	1 383	8.9%
Total	**12 375**	**13 066**	**13 779**	**14 892**	**15 713**	**16 223**	**16 709**	**5.1%**

1. Projected numbers at fiscal year end.
Source: Provincial budgets and expenditure review / Socpen system

Table 7.4 Social grants expenditure by type and province, 2007/08– 2013/14

R million	2007/08	2008/09 Actual	2009/10	2010/11 Revised estimate	2011/12	2012/13 Projected	2013/14	% Growth per year
Old-age	22 801	25 934	29 826	33 797	36 571	39 913	42 975	11.1%
War veterans	22	20	17	14	12	11	10	-12.3%
Disability	15 280	16 474	16 567	17 080	17 813	19 439	20 626	5.1%
Foster care	3 414	3 934	4 434	4 898	5 536	5 833	6 281	10.7%
Care dependency	1 132	1 292	1 434	1 582	1 727	1 885	2 129	11.1%
Child support	19 625	22 348	26 670	30 594	35 564	38 810	41 993	13.5%
Grant-in-aid	87	90	146	160	177	190	205	15.4%
Social relief of distress	106	623	165	143	160	175	190	10.2%
Total	**62 467**	**70 715**	**79 260**	**88 268**	**97 560**	**106 256**	**114 409**	**10.6%**
Province								
Eastern Cape	11 636	12 557	13 914	15 455	17 071	18 586	20 079	
Free State	4 122	4 573	5 055	5 576	6 117	6 671	7 363	
Gauteng	7 318	8 289	9 390	10 629	11 833	12 871	13 725	
KwaZulu-Natal	15 105	17 590	19 454	21 536	23 685	25 791	27 394	
Limpopo	8 439	9 656	10 855	12 070	13 419	14 629	15 081	
Mpumalanga	4 322	4 943	5 567	6 080	6 751	7 367	7 601	
Northern Cape	1 622	5 711	2 227	2 500	2 766	3 018	3 429	
North West	5 187	1 962	6 366	6 899	7 515	8 161	8 921	
Western Cape	4 716	5 434	6 432	7 523	8 403	9 162	10 816	
Total	**62 467**	**70 715**	**79 260**	**88 268**	**97 560**	**106 256**	**114 409**	

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. They include the UIF, the Compensation Funds and the RAF.

Table 7.5 Social security funds, 2007/08 – 2013/14

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
		Outcome		Revised		Medium-term estimates	
R million				estimate			
Unemployment Insurance Fund							
Revenue	11 324	13 691	14 199	14 382	15 526	16 681	17 827
Expenditure	3 592	4 636	6 581	8 138	9 385	10 485	11 607
Compensation Funds							
Revenue	5 661	6 860	7 364	7 288	7 705	8 217	8 632
Expenditure	3 567	3 451	3 923	2 754	3 939	4 014	4 229
Road Accident Fund							
Revenue	8 104	11 865	11 785	14 218	14 858	16 512	18 442
Expenditure	9 316	11 966	12 221	14 218	14 378	15 333	17 856
Total: Social security funds							
Tax revenue	20 868	23 288	27 001	30 427	32 225	35 065	38 175
Non-tax revenue	4 212	6 619	6 338	5 449	5 851	6 332	6 711
Grants received	9	2 509	10	12	12	13	14
Total revenue	**25 089**	**32 416**	**33 348**	**35 888**	**38 089**	**41 410**	**44 900**
Total expenditure	**16 475**	**20 054**	**22 725**	**25 110**	**27 701**	**29 832**	**33 693**
Budget balance[1]	**8 614**	**12 362**	**10 624**	**10 778**	**10 388**	**11 578**	**11 208**

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

Unemployment Insurance Fund

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 fund is financed by a tax payable by both employers and employees at a rate of 1 per cent of earnings, up to a threshold of R12 478 a month.

UIF is in a strong financial position, despite higher payouts resulting from elevated unemployment

The UIF is in a position to meet its cash-flow requirements for a wide range of possible scenarios over the next decade. An actuarial valuation conducted in March 2010 estimated that the reserve requirement was R16.2 billion, and the fund had capital and reserves amounting to R41.2 billion as at 31 March 2010, mainly invested with the Public Investment Corporation.

For the first nine months of 2010/11, an average of 63 260 new claims per month reached the UIF. Average monthly benefit payments amounted to R466.8 million to 207 646 beneficiaries. Since the recession began workers have on average spent longer periods out of work. Expenditure on UIF benefits increased by 58.5 per cent between 2008/09 and 2010/11.

UIF is developing tools to help place unemployed workers in jobs or training

Through its links with Department of Labour employment centres and its jobs database, the UIF is developing mechanisms to support the placement of unemployed workers in jobs or training.

Improvements to the UIF benefit structure are currently under consideration as part of the broader reform of social security.

Figure 7.1 UIF payments and beneficiaries, 2009 – 2010

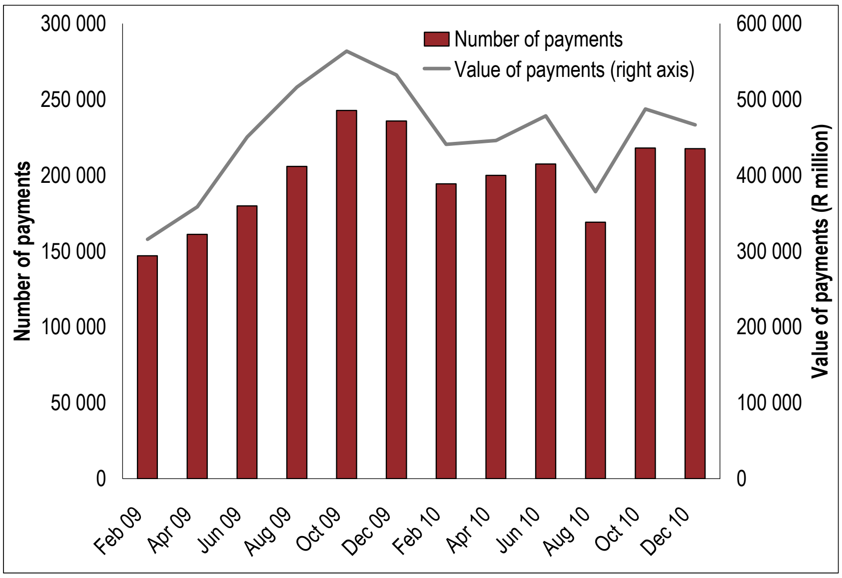

Table 7.6 UIF benefits and recipient numbers, 2007/08 – 2010/11

	2007/08	2008/09	2009/10	2010/11
		Outcome		Revised estimate
Benefits (R million)				
Unemployment	2 031	2 834	3 942	4 280
Illness	187	212	355	387
Maternity/adoption benefits	460	538	832	901
Dependant benefits	243	264	491	532
Total benefits paid[1]	**2 921**	**3 848**	**5 620**	**6 100**
Beneficiaries (thousand)				
Unemployment	397	475	529	582
Illness	25	26	26	29
Maternity/adoption	89	94	98	108
Dependant	16	16	18	20
Total beneficiaries	**527**	**611**	**671**	**739**

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

Road Accident Fund

The RAF provides compensation for losses incurred due to the wrongful or negligent driving of another vehicle. Losses covered by the RAF include the loss of earnings or support, medical expenses and funeral costs, as well as non-financial losses such as pain and suffering. The RAF is funded from a dedicated levy on fuel. The fuel levy will increase from the current 72c/l to 80c/l in April 2011.

RAF has made savings, but legal and administrative costs consume a higher portion of the fuel levy

The RAF has heeded the call for efficiency savings by reducing projected administrative expenditure by R131 million over the next three years. However, the legal and administrative cost of finalising claims has remained at about 30 per cent of fuel levy proceeds. Reducing these costs is an important element in the reform of the road accident benefit system.

The RAF reduced the number of outstanding claims from 261 390 in 2008/09 to 209 186 in 2009/10. Claims expenditure increased by an annual average of 15 per cent between 2007/08 and 2010/11, and will continue to grow over the MTEF period at an average rate of 8 per cent a year. The estimated outstanding liability increased to R44.1 billion in 2010/11.

The shift to a no-fault road accident insurance system is under way

The Road Accident Fund Amendment Act (2005) and the shift to a no-fault benefit scheme have been subject to legal challenge. In November 2010, the Constitutional Court dismissed the main challenge to the reform and found that the no-fault benefit approach would support the objectives of making the fund financially viable – and compensation more transparent, predictable and equitable.

New scheme will move emphasis away from claims settlement and towards medical coverage

In February 2010 the Department of Transport published a proposal for a no-fault Road Accident Benefit Scheme. The scheme would provide for a more equitable, affordable and sustainable system of benefits, and conform to the fundamental rights to social security and health care established by the Constitution. The new system would shift expenditure away from claims settlement and legal costs towards medical expenditure, ensuring beneficiaries' access to timely and appropriate healthcare, encourage rehabilitation and provide for life-long care for those seriously injured.

Successful implementation of the new scheme is expected to reduce costs by 7.5 per cent compared with the existing RAF.

Compensation Funds

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 levies on employers. The largest fund is the Compensation Fund, run by the Department of Labour. The Department of Health oversees the Compensation Commissioner for Occupational Diseases. The funds' financial performance is reflected in Table 7.5.

A pressing need for administrative reform

Social security and assistance agencies are burdened with high administrative costs

High administrative costs burden both the social assistance and the statutory social security funds. Excessive administrative costs in the grants system represent an unproductive use of revenue set aside for those with the greatest need. In the case of the statutory funds, administrative costs reduce the value of workers' benefits in relation to their contributions.

The main reason for high costs is the duplication of functions across agencies. Social security entities essentially perform the same tasks: they collect contributions, manage accounts and disburse benefits. Yet none of these functions are shared. Information gathered this year from the five largest agencies underscores the extent of the problem. As shown in Table 7.7, administrative costs vary significantly. For example, SASSA's administration ratio is 6 per cent, the UIF's is 25 per cent and the Compensation Fund spends over 40 per cent of costs on administration.

Table 7.7 Benefits and administrative expenditure of five social security entities, 2010/11 – 2013/14

	2010/11	2011/12	2012/13	2013/14
	Revised estimate	Medium-term estimates		
Benefit (R thousand)				
SASSA	89 368	97 479	106 029	112 682
CCOD[1]	91	104	121	121
RAF	14 935	15 049	15 790	16 461
UIF	6 099	6 952	7 926	9 778
Compensation Fund	2 689	3 807	4 018	4 219
Total	**113 182**	**123 390**	**133 883**	**143 260**
Administrative expenditure (Rand)				
SASSA	5 487	5 686	5 975	5 525
CCOD	9	10	11	11
RAF	1 077	1 078	1 128	1 179
UIF	1 543	1 578	1 652	1 743
Compensation Fund	1 079	1 048	1 230	1 291
Total	**9 196**	**9 402**	**9 996**	**9 749**
Administration ratio				
SASSA	6.0%	6.0%	6.0%	5.0%
CCOD	10.0%	10.0%	9.0%	9.0%
RAF	7.0%	7.0%	7.0%	7.0%
UIF	25.0%	23.0%	21.0%	18.0%
Compensation Fund	40.0%	28.0%	31.0%	31.0%
Total	**8.0%**	**8.0%**	**7.0%**	**7.0%**

1. Compensation Commissioner for Occupational Diseases.

These numbers do not tell the whole story. For example, SASSA's distribution costs are high due to expensive cash-payment contracts. Without these costs, administrative expenditure as a percentage of benefit payments would have fallen over time. The UIF has 948 service points, compared with 540 for SASSA and a total of 1 700 across all social security entities. Sharing the 1 700 service points would reduce costs, increase the presence of some entities, and enhance service delivery.

Ministerial committee has called for unification of administration

In 2010 the inter-ministerial committee on social security reform and health financing called for the unification of administrative functions, alignment of benefits and coordination of policy-making across agencies.

Retirement industry reforms

In the absence of a statutory retirement fund, many workers rely on the state old-age grant

The absence of a statutory retirement fund means that workers' income in retirement comes from occupational schemes or individual savings arrangements. Coverage of occupational funds in South Africa is high relative to other countries of similar income level, though coverage varies across sectors and households generally do not save adequately for retirement. Many low-income workers rely only on the *old-age grant*.

A key reason for the disparity in coverage levels and savings rates is the lack of preservation: workers often liquidate their savings when they leave a job rather than transfer them to a new fund. The National Treasury will consult with the public this year regarding the viability of mandating preservation upon change of jobs, or in the event of divorce.

Reforms proposed to Regulation 28, which governs where pension funds can invest

The savings industry requires careful regulation. In 2010 the National Treasury proposed changes to Regulation 28 of the Pensions Fund Act (1956), which imposes limits on where funds can invest. The intention is to ensure that retirement savings are invested in a prudent manner that protects fund members, while promoting economic development.

The Pensions Fund Act does not cover public-sector funds. Discussions are under way regarding the way these funds will be regulated in future.

Consolidation among South Africa's 3 200 pension funds is necessary and achievable

Strong supervisory capacity is also required to ensure that funds obey the rules. The Financial Services Board (FSB), which supervises South African pension funds and insurers, struggles to fulfil its obligations due to some funds' poor reporting standards. The profusion of funds adds to the FSB's workload: although the number of active pension funds has declined significantly in recent years to about 3 200 today, more consolidation is both desirable and achievable.

Pension funds also need to improve their level of disclosure to clients. A lack of transparency prevents customers from being able to compare products across funds, and often results in excessive charges. During 2011, the National Treasury will consult with pension fund industry bodies to draft a code of ethics and address concerns over high fees.

Restructuring public health care

Budget takes first steps in NHI by strengthening the health system

The 2011 Budget takes the first steps in establishing national health insurance (NHI), which is part of the Minister of Health's 10-point plan for improving health outcomes in South Africa. The public health system is being strengthened, a *health infrastructure grant* has been established, new facilities are being built and existing ones upgraded. In addition:

- A family health approach to primary health care is being launched (R1.2 billion)
- The quality of care in hospitals is being improved (R2.7 billion)
- The Office of Standards Compliance is being established as an independent authority, which will include an inspectorate and an ombudsman (R117 million).

To work properly, the NHI must be adequately financed

The delivery of primary health care through family health teams draws on lessons from the successful adoption of this approach in Brazil. The teams will consist of nurses, doctors and community health workers, looking after families in revitalised public health facilities, with an emphasis on prevention rather than cure.

These and other improvements to the public health system will require higher revenues to ensure adequate financing over the long term. The NHI will also rely on efficient delivery structures for health services and a sound payment approach for health providers. Joint work of the National Treasury and the Department of Health is in progress on the fiscal and financial arrangements for these reforms. Due in part to the complex nature of financing and accrediting facilities for participation in the system, and investment in health service capacity that is required, implementation of this reform will be phased over a period of 14 years.