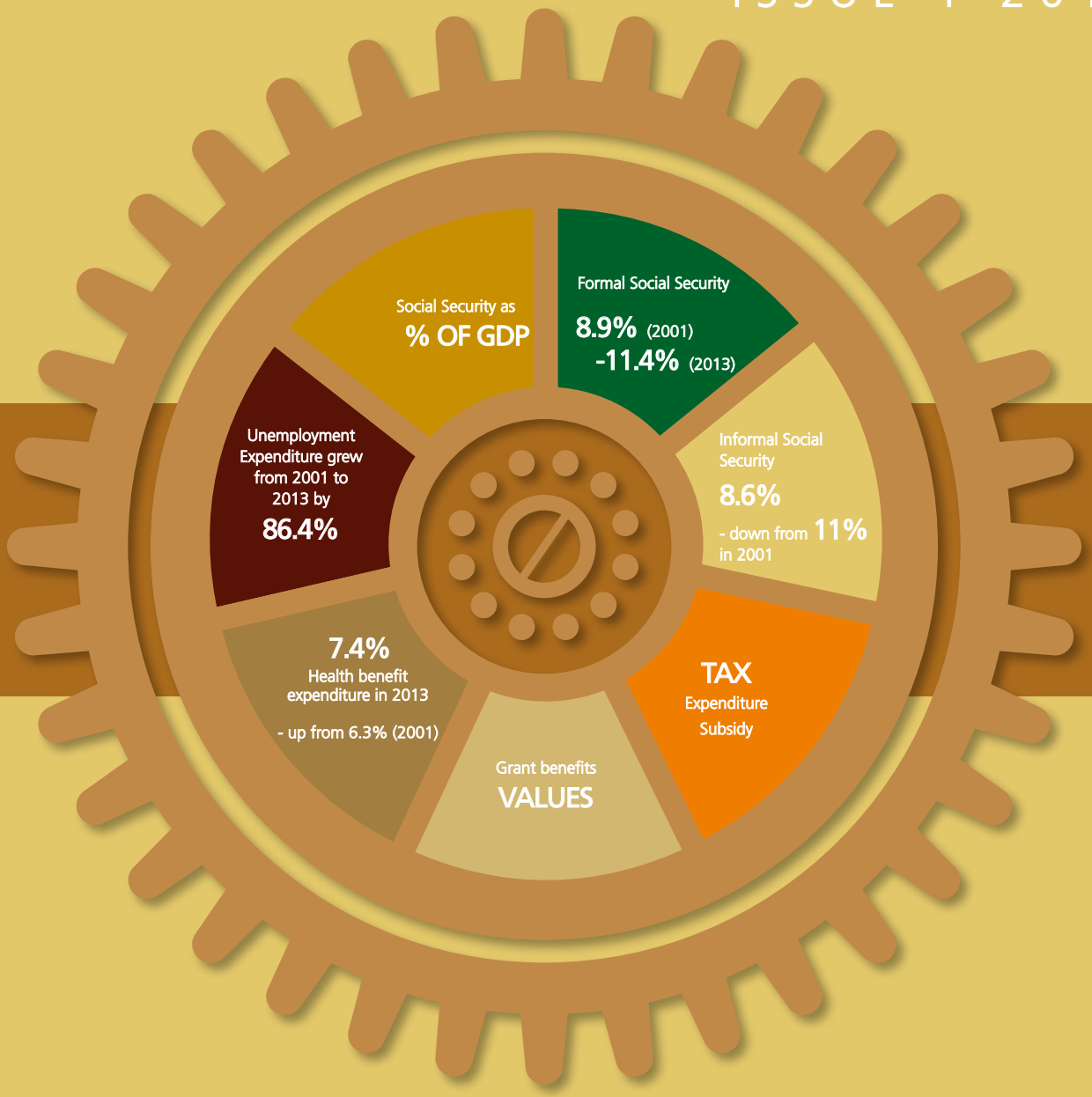
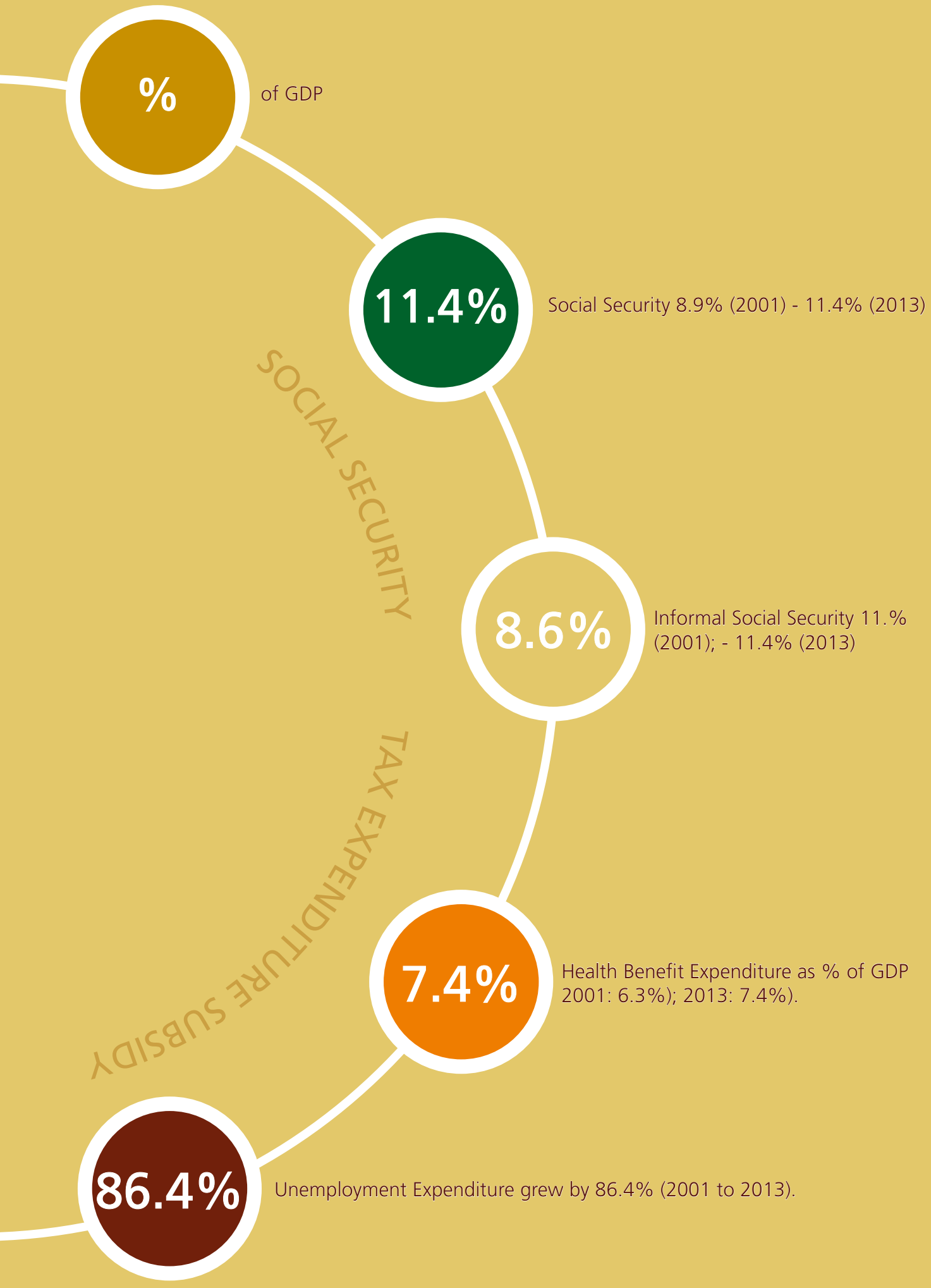
SOCIAL BUDGET BULLETIN

ISSUE 1 2017



social development

Department:
Social Development
REPUBLIC OF SOUTH AFRICA


%
of GDP
11.4%
Social Security 8.9% (2001) - 11.4% (2013)
SOCIAL SECURITY
8.6%
Informal Social Security 11.% (2001); - 11.4% (2013)
TAX EXPENDITURE SUBSIDY
7.4%
Health Benefit Expenditure as % of GDP 2001: 6.3%); 2013: 7.4%).
86.4%
Unemployment Expenditure grew by 86.4% (2001 to 2013).

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GLOSSARY OF TERMS

Active members (pensions):
Pension fund contributors.

Administration expenses:
expenditures associated with the general administration of social protection schemes.
Contributory social security expenditure: refers to any social security scheme where the benefits are conditional upon some form of contribution. Included are public and private social security schemes, including CCOD, CF, RAF, UIF, private pensions, official pensions and medical schemes

Deferred pensioners:
a person entitled to a pension payment at a future date. Normally this would be an early leaver (a person who ceases to be an active member of a pension scheme, other than on death, without being granted an immediate retirement benefit). The term can also be used to describe someone whose retirement has been postponed.

Financial transfers:
government transfers directly to families such as social grants.

Formal social security:
social protection that has some form of statutory guarantee in place. This includes SASSA, public health arrangements, CCOD, Compensation Fund, RAF, UIF, Medical Schemes.

Informal social security:
social protection mechanisms that have no statutory guarantees and include private and official pensions. Such schemes involve access and benefits which are at the discretion of some private party.

In-kind social security:
social protection goods or services provided for by government which do not require direct contributions. This includes public health arrangements.

Mandatory social security:
schemes where participation is compelled by statute. This includes the RAF, CCOD, UIF and CF

Means /income tests:
social benefits of any form that are accessed only for individuals, families, or groups based on criteria related to their vulnerability. Means tests focus on assets and income, while income tests focus exclusively on income.

Medical scheme contributions:
Medical scheme gross contributions income made up of revenue derived from member contributions.
Non-contributory social security expenditure: Includes spending by the South Africa Social Security Agency (SASSA) and public health arrangements.

Pension fund beneficiaries:
Pensioners in receipt of regular payments and dependants and nominees in receipt of regular payments

Official pension funds:
funds that have been established by special laws for employees of the state and certain parastatal institutions. These funds are supervised by National Treasury under the relevant laws.

Private contributory social security:
privately administered contributory social protection schemes which include private pensions, official pensions and medical schemes.

Private pensions:
all privately administered and underwritten funds and which includes official and other parastatal pensions schemes.

Public contributory social security:
Public contributory social protection expenditure which includes spending by the Compensation Commissioner for Occupational Diseases (CCOD), the Compensation Fund (CF), the Road Accident Fund (RAF) and the Unemployment Insurance Fund (UIF).

Public non-contributory social security:
schemes where any entitlement to benefits is not derived from an explicit contribution.

Social assistance:
non-contributory income transfers.

Tax expenditure subsidies:
are income transfers provided by government using the tax system.

Underwritten funds:
funds operating exclusively by means of insurance policies issued by registered insurers in South Africa and previously known as exempt funds.

Voluntary social security:
are non-compulsory social protection schemes including private and official pensions and medical schemes. Participation of a voluntary scheme is at the discretion of individuals and/or families. Employer mandated schemes are also included here as voluntary, as they are decided on by employees and employers collaboratively.

ABBREVIATIONS

AIDS	Acquired Immune Deficiency Syndrome
ASSA	Actuarial Society of South Africa
CCOD	Compensation Commissioner for Occupational Diseases
CF	Compensation Fund
CMS	Council for Medical Schemes
CPI	Consumer Price Index
CSG	Child Support Grant
DSD	Department of Social Development
FSB	Financial Services Board
GDP	Gross Domestic Product
GEPF	Government Employees Pensions Fund
GFS	Government Finance Statistics
HIV	Human Immunodeficiency Virus
RAF	Road Accident Fund
ROI	Return on Investment
SARB	South African Reserve Bank
SARS	South African Revenue Services
SAS	Social Accounting System
SASSA	South Africa Social Security Agency
SOAP	State Old Age Pension
SocPen	Social Pension System
STATS SA	Statistics South Africa
TES	Tax expenditure subsidies
UIF	Unemployment Insurance Fund

MS BATHABILE OLIVIA DLAMINI

MINISTER'S FOREWORD

I am pleased to present the very first Social Budget Bulletin of the Department of Social Development. This publication occurs at a time when the world economic order is strained and uncertain. Economies in developed and developing economies alike have experienced periods of economic stress, with many families facing hardship and heightened levels of risk. South Africa has not been immune to these developments.

We remain mindful that despite our best efforts, our country continues to face the triple challenges of unemployment, poverty and inequality. Since the advent of democracy, our government has committed itself to tackling the legacies of the past and to ensure a thriving and vibrant economy that provides inclusive growth for all its citizens. Over the years we have taken steps to ensure that funding for social services and transfers has increased, and we have strengthened our commitment to provide a comprehensive network of social development services, including income support. The results of these efforts show that solidarity based social programmes, especially those typically associated with social security, are central to the achievement of sustained levels of economic growth, development and wellbeing.

In our quest to improve the information base around current social protection systems operating within the country, we have initiated a Social Budget project. The aspects of the Social Budget project are reflected in this publication and through this publication, we aim to narrow the information gap by reviewing the coverage, scope and performance of existing social security measures and identifying areas for reform in order to support a better managed and more equitable national social protection system.

This bulletin focuses primarily on social security provision based on available data. It excludes other social protection interventions such as basic water and sanitation, education, housing, electricity, refuse removal and so forth. These will be discussed as the Social Budget Project progresses and data sets for the non-social security interventions are developed. The Social Budget offers the first opportunity to assess the nature and quality of the social security system in South Africa and to monitor its performance over time..

Our social security benefits for families and maternity protection remain below 1% of GDP, despite the fact that we have, through SASSA identified at least 11 million children living in poor households. Unemployment protection is at a low 0.2% of GDP in a country with a structural unemployment of 36%. Given the slow pace of job creation, it is imperative that we accelerate our interventions and reduce the burden on those households in this country who continue to bear the brunt of poverty.

By providing an inventory of existing schemes in the country, this publication of the Social Budget aims to assist in making many of the complex aspects of the social security system and its interactions more transparent and visible to both government and society at large. In addition, this will highlight coverage gaps and areas for improvement, thereby supporting evidence-based policy decisions.

Government remains committed to the continued implementation of social protection measures that is redistributive and that contributes to reducing levels of absolute poverty, deprivation and that lays the basis for a society that is more equitable and caring. I am hopeful that this inaugural Social Budget Bulletin will become a regular feature of my department's publications. This will only be worthwhile if all our stakeholders within and outside of government use, respond and engage us on the contents, so that we can improve the quality and contents of any future publications.

MS BATHABILE OLIVIA DLAMINI
Minister of Social Development, MP

DIRECTOR-GENERAL'S OVERVIEW

MR ZANE UDIEN DANGOR

The development of a Social Budget initiative in South Africa is the result of many engagements between the Department of Social Development (DSD) and the International Labour Organisation (ILO), which suggested and supported the initiation of the project. The University of the Witwatersrand was brought in as the natural partner to assist in the development and institutionalisation of this work, primarily because it is the only academic institution in the country that offers formal postgraduate training in Social Security Policy and Administration , which includes a module on social budgeting.

The Social Budget presents a tool to more systematically report, analyse and review social expenditure across time in order to assess the extent to which the country is moving towards the progressive realisation of its constitutional mandate. The publication of the Social Budget Bulletin aims to provide reliable data to inform policy analysis and dialogue in social protection policy developments in the country. This is a particularly important undertaking in our context, because of our history and our government's development agenda.

According to the Taylor committee of Inquiry (2002), the democratic government of 1994 inherited a vastly unequal society, with 50% of income in the country in the hands of the richest 6% of the population, while the poorest deciles, (accounting for 52% of the population) commanded only 10% of the income. The racial dimension of this was reflected by the fact that in 1996, the Black population comprised 76.2% of the national population, but received only 19.2% of the income. By contrast the White population comprised 12.6% of the national population but commanded 71.2% of the income. The country was among the three most unequal societies in the world, surpassed only by Brazil and Guatemala.

There were deep structural deficiencies in the health, education and social security systems in the country, relating to public-private inequalities, interprovincial disparities and chronic personnel shortages in the public health, education and social development sectors. It was in light of these socio-economic challenges that the South African Constitution of 1996 was crafted. It specifies and protects socio-economic rights, including the right to housing, education, health and social security. The Bill of Rights enshrines the right to access healthcare, food, water and social security as constitutional rights. These provisions have formed the basis of extensive policy initiatives across government since the advent of democracy. Although significant progress has been made in reducing poverty levels, this inaugural Social Budget Bulletin reveals that much still remains to be done.

Because of technical and resource constraints, this Social Budget will focus initially on Social Security rather than the broader social protection expenditure in the country. The aim of the publication is to assist in providing information on six key policy issues in the South African social security system: first, the cost, affordability and sustainability of policies; second, the completeness of coverage such that all branches (risk areas) are covered; third, the adequacy of benefits; fourth, the balance between social and other sectors and between different components of social spending, and particularly the relationship between social transfers, job creation and unemployment; fifth, the balance between social assistance, social insurance and private insurance (given the significant role of private insurance in South Africa); and sixth, the efficiency and impact of the system and the need for redesign as well as administrative reform.

For the period under review (2001-2013), the findings of this initial Social Budget Bulletin have been heartening in some aspects, and surprising in others. For example, growth in social security expenditure has decreased as a percentage of GDP from 20.1% in 2001 to 19.9% in 2013. Private contributory expenditure accounts for 11.8% of GDP compared to only 1% for public contributory expenditure, and informal social security expenditure has declined 11% to 8.6% of GDP over the same period. However, government's heightened focus on poverty alleviation has led to an increase in non-contributory expenditure from 4.7% of GDP in 2001 to 7.2% by 2013. While this is cause for celebration, the analysis reveals that the extension of coverage has not been matched by an improvement of living standards. On the contributory side, there is a need to strengthen the formal social security provisions to improve the quality of cover.

I hope that the bulletin will generate much discussion and input from all our stakeholders in government, business and civil society. Our aim is to publish regular editions of the Bulletins and use these as a platform to facilitate engagement with stakeholders to inform and influence future policy development. I therefore invite you to use this report and send us your comments and contributions, so that we can together walk the journey towards a comprehensive, responsive and inclusive protection system in our country.

MR ZANE UDIEN DANGOR
Director-General: Department of Social Development

INTRODUCTION

Overview

Social programmes of various forms ensure the proper functioning of society within the context of social pressures generated by the operation of markets, the constant reshaping and movement of populations, and responses to features of the global economy and society. In their absence societies stratify into permanent groups of "winners" and "losers," with an overall reduced level of wellbeing, with many, typically the majority, who lives of unnecessary hardship. An important feature of these underlying tendencies is that they are structural and inevitable if not addressed through measures that fairly distribute risk, resources and income.

The importance of social programmes, especially those typically associated with social security, are now understood to be central to the achievement of sustained healthy levels of economic growth and development. This marks a significant departure from perspectives that regard the achievement of equitable social outcomes as harmful to economic growth. A more equal society is an essential prerequisite for improved economic performance rather than, as is sometimes argued, a benefit that only arises from improved economic performance. For this reason it is important to measure exactly what our social programmes achieve.

The *Social Budget* provides a review of the largest subset of social programmes which focus on the prevention and mitigation of risks arising from contingencies with significant social effects, conventionally referred to as *social security*. These include: illness, healthcare needs, unemployment, death and invalidity of breadwinners, maternity, and childcare needs. The risks associated with these contingencies are exacerbated by the commodification of labour and many features of modern life that leave families vulnerable to events that block the flow of income and support which historically would have been prevented or mitigated in-kind by the local community and extended families.

The *Social Budget* distinguishes between two categories of social security. The first is formal social security, where risk prevention and mitigation is achieved via social guarantees incorporated into a legislative framework; while the second is informal social security, where risk prevention and mitigation is provided privately – whether by contract in the form of actuarial insurance[1] or through social networks (intra- and inter-household support). Informal social security is significantly less secure than formal social security, with protection subject to the discretion of familial relationships, the private market and/or employer conduct. Although widespread as a form of protection, informal social security mechanisms, while offering some risk mitigation, tend to reflect and even reinforce underlying social inequalities.

Social security schemes can also be broken down into those that require some form of contribution, referred to as *contributory,* and those where benefits are not predicated on a contribution, referred to as *non-contributory*. Non-contributory schemes are invariably funded from general taxes with budgets allocated by parliamentary votes. They also take two forms: in-kind services, such as free healthcare or access to social workers; or *financial transfers* – as in the case of *social assistance* or *cash transfers.* Social assistance, also referred to as cash transfers, involve direct payments by government to households. Contributory schemes can be offered in two ways, either through private arrangements by way of contract (such as *actuarial insurance*), or via a public insurer such as the Unemployment Insurance Fund (UIF). Contributory schemes, whether public or private, that involve government guarantees are typically referred to as *social insurance*.

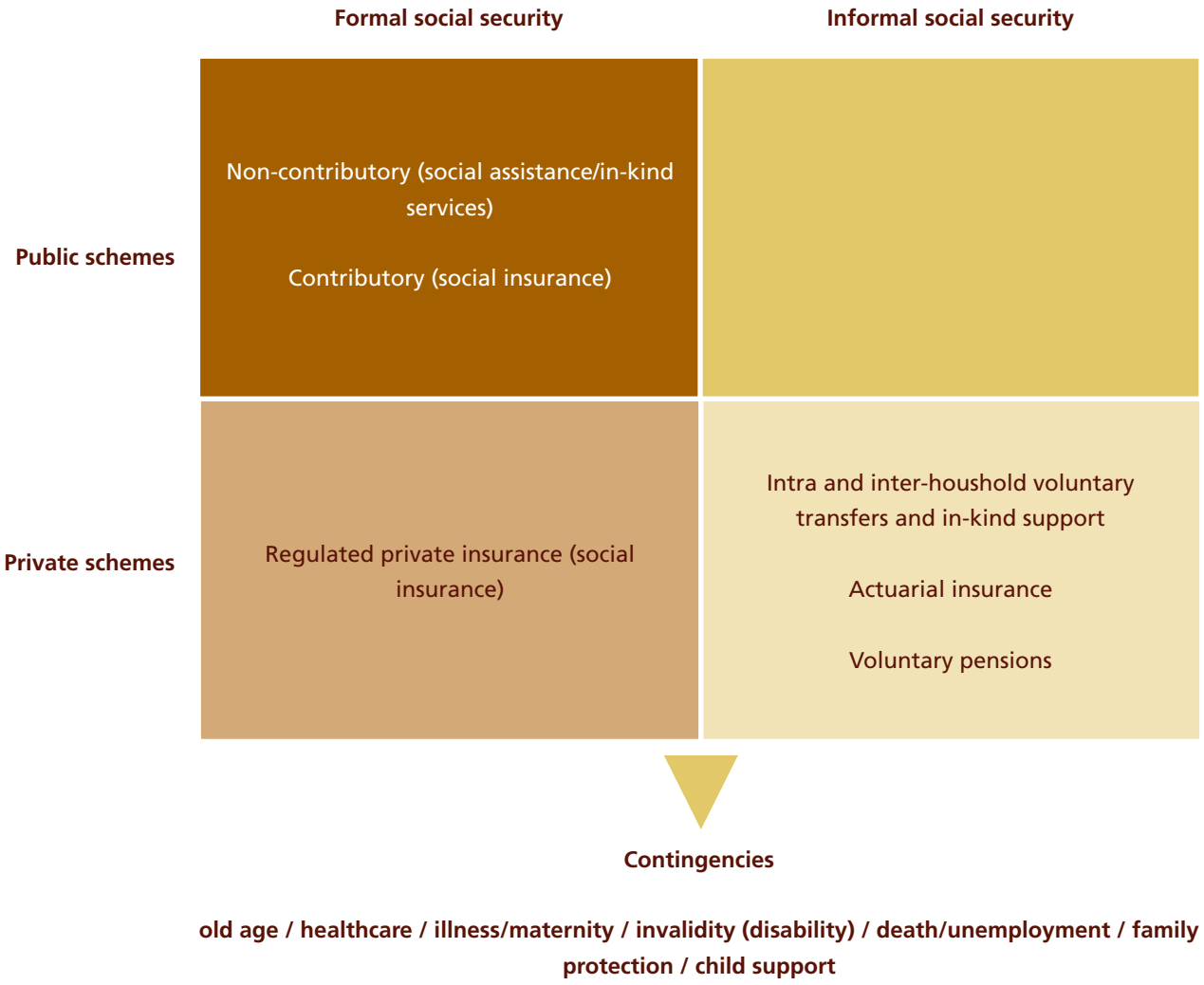
The *Social Budget* therefore offers the first opportunity to broadly assess the quality of the social security regime in South Africa and to monitor its outcomes over time.

What is the Social Budget?

The Social Budget offers a consolidated perspective on all social security schemes, whether public or private, non-contributory or contributory, formal or informal. Not all parts of the social security system offer the same quality of protection; crude expenditure and coverage levels are consequently poor indicators of the quality of protection. Nevertheless, a large part of this report focuses on the crude macro indicators, as they provide some important trends, with qualifications expressed in the text where required. Figure 1 offers a breakdown of the social budget in accordance with the various components of the social security system.

[1] Actuarial insurance refers to private insurance arrangements that are prices and marketed in accordance with the sustainability requirements of a private unregulated market. This is to be distinguished from social insurance where wider protection can be achieved through some form of government intervention that expands the scope of sustainable insurance.

Figure 1: Breakdown of the social budget categories in accordance with the components of the social security system



What is social security/protection?

The terms social security and social protection are often used interchangeably. Social protection is however regarded as a broader concept, including schemes that reduce risk rather than only mitigate the occurrence of a risk.

Social security typically refers to the narrow range of schemes that involve financial risk protection of some form; either the protection of adequate income levels; or financial protection against some form of expense incurred, as in the case of health insurance. Protection takes the form of transfers from government (social assistance) or access to some form of risk-pooling scheme (public or private social insurance). Some in-kind services, especially those involving free access to public health services, can also be regarded as social security. However, labour activation schemes, social services, education and housing interventions fall within the wider definition of social protection.

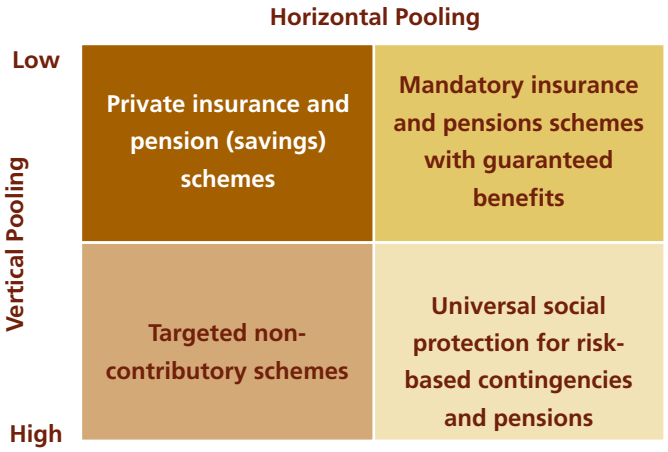
Given the already wide scope of social security, the social budget focuses narrowly on social security rather than social protection. Future social budgets will however be expanded to incorporate labour activation and social housing.

Figure 2: Defining social protection and social security

How do we understand differences in scheme expenditure?

Not all forms of social security expenditure have the same influence on society. Although there are several ways to categorise social security expenditure, at essence it involves the social pooling of finances along two dimensions. Firstly, pooling occurs along a vertical dimension across income groups, affecting a transfer from households with adequate incomes to those without. The principal mechanism by which this occurs is through the tax system seen together with key government programmes. Secondly, pooling can occur across a horizontal dimension, from individuals who need support today, funded by those not in need today. Pooling along the horizontal dimension includes typical forms of insurance as well as transfers from one part of the life cycle to another (pensions).

Figure 3:Vertical and horizontal pooling



Social security pooling along the vertical dimension occurs through non-contributory arrangements, such as social assistance or free health care. Pooling along the horizontal dimension can occur through both non-contributory and contributory schemes. In the latter instance, social assistance for invalidity (disability) incorporates both vertical and horizontal dimensions, as benefits are based on need as and when it occurs, regardless of income. However, pooling along the horizontal dimension is typically a feature of contributory schemes, where benefits are paid out only when needed (e.g. death of a contributor or covered individual, or disablement of a contributor or covered individual).

Unemployment insurance arrangements, which are also contributory, can however offer different benefit levels based on income, with lower-income groups preferred. They therefore incorporate an element of vertical pooling despite a substantial element of horizontal pooling. However, as lower income groups are at a greater systemic risk of experiencing periods of unemployment, even without this aspect the scheme implicitly incorporates a strong vertical dimension.

Social security expenditure that is heavily biased towards contributory schemes, particularly private forms of coverage, do not pool effectively across the vertical dimension – particularly if there are wide differences in income across the population. Horizontal pooling may also be inadequate if there are multiple small schemes, reducing the level of possible and useful societal risk sharing. This particularly affects health insurance arrangements.

Social security categories

Social security, as used in this report, refers to schemes, whether public or private, that protect incomes from various contingencies, including: health care needs, old age, death, invalidity, unemployment, child protection and poverty. Schemes that take the form of income protection, such as insurance and pensions are also included. Attempts to represent the social security system are made difficult by the multi-faceted nature of social security institutions and the forms of coverage they offer. Tables 1 and 2 provide a breakdown that clarifies how the system is made up institutionally, by form and type of coverage.

The system can also be divided into the following forms of cover:

- Contributory and non-contributory;
- Mandatory versus voluntary contributory arrangements;
- Formal and informal social security;
- Public and private provision;
- Income protection versus in-kind services; and
- Universal versus targeted (means or income-tested) benefits.

To cater for this complexity, the report discusses certain of these breakdowns separately to emphasise different elements of the system.

For instance, a distinction between public and private is not meaningful without distinguishing between formal and informal social security. A private system could provide good quality social security if it is well regulated and incorporates key social guarantees (related to – societal pooling, guaranteed access, minimum benefits, prudential requirements and market conduct). The same expenditure levels in the private sector without social guarantees offer much weaker social security. A poorly governed public scheme could also offer weak protection relative to a well-regulated private system.

Table 1: Social security categories

Category	Institutional form of coverage	Oversight	Type of coverage		Means tested
			Income protection*	In-kind service	
Non-contributory (budgeted expenditure)	Public health	National and provincial departments of health	√	√	√
	Social assistance	Department of Social Development	√		√
Non-contributory (budgeted tax expenditure)	Private pensions arrangements, long-term insurance, medical schemes and out-of-pocket health expenditure	National Treasury	√		
Public contributory (contributions)	Unemployment Insurance Fund	Department of Labour	√		
	Road Accident Fund	Department of Transport	√		
	Compensation for Occupational Injuries and Diseases	Department of Labour	√		
	Compensation for mining-related diseases	National Department of Health	√		
Private contributory (contributions)	All private pensions arrangements	National Treasury	√		
	Long-term insurance	National Treasury	√		
	Medical schemes	National Department of Health	√		
	Short-term health insurance	National Treasury	√		

Table 2: Contingencies by institutional form of coverage

Institutional form of coverage	Contingency						
	Healthcare	Old age protection	Invalidity	Death of breadwinner	Child protection	Unemployment	Maternity
Public health	√	√			√	√	√
Social assistance			√				
Private pensions arrangements, long-term insurance, medical schemes and out-of-pocket health expenditure	√	√	√	√	√		
Unemployment Insurance Fund						√	
Road Accident Fund	√		√	√	√		
Compensation for Occupational Injuries and Diseases	√		√	√	√		
Compensation for mining-related diseases	√		√	√			
All private pensions arrangements		√	√	√			
Long-term insurance		√	√	√			
Medical schemes	√	√			√		√
Short-term health insurance	√						

*Income protection can be organised to achieve pooling the vertical or horizontal dimensions or both as discussed above.

Understanding the goals of social security

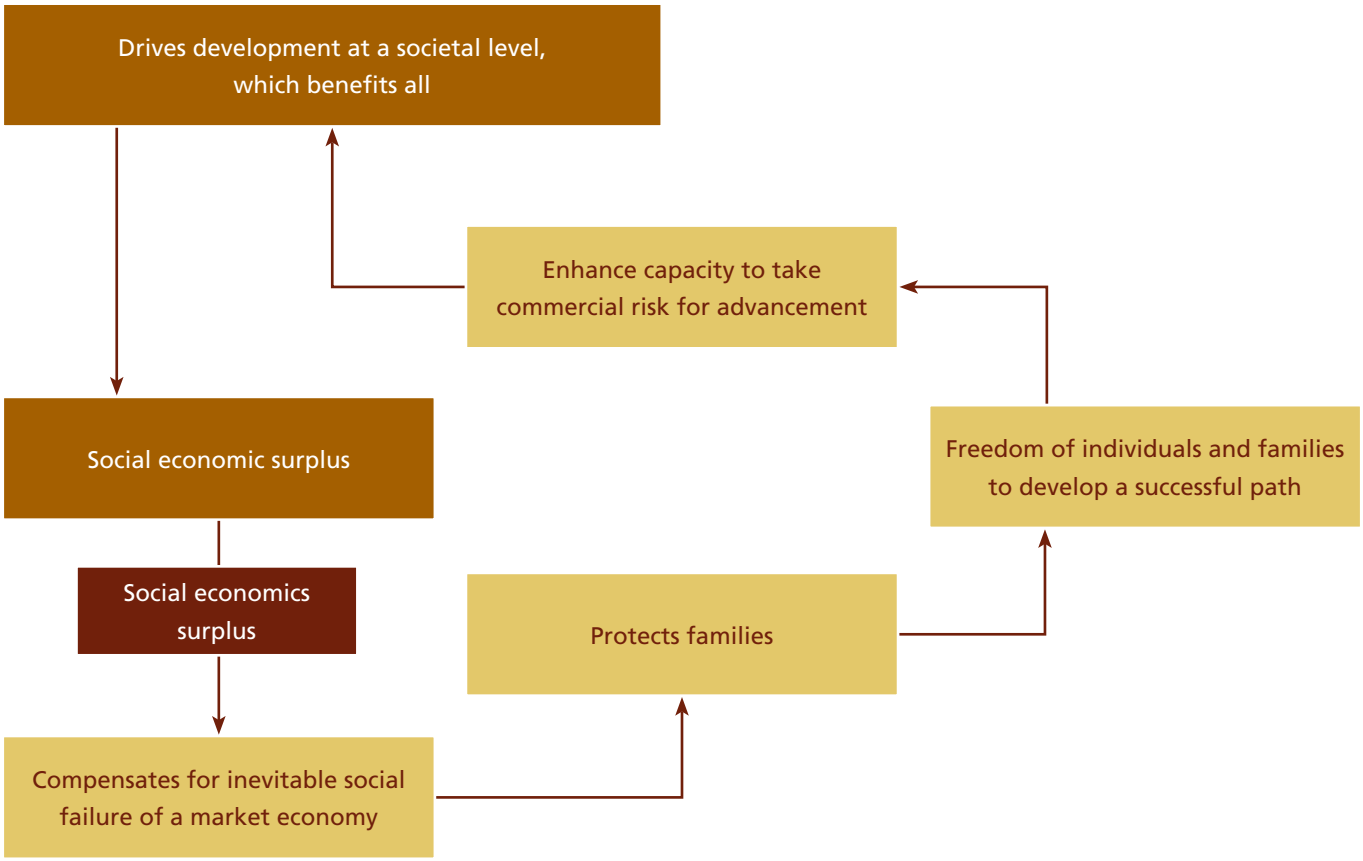
While earlier sections outlined technical aspects of social security, i.e. what they can do, the overall goals operate strategically at a societal level. Social security systems in modern societies structurally replace older more community-based social protection arrangements, which, while appropriate for a pre-modern context, cannot provide the kind and level of support needed to manage large, complex, highly urbanised and constantly changing societies. Social security systems are an inseparable component of a well-functioning society. Without them economies would become less fair, structurally unequal (systemic winners and losers), less productive and generally less successful.

There are five features of a social security system that are necessary to internalise increasing positive societal feedback effects:

- First, social security must compensate for the structural inequalities and perverse outcomes that result from the ordinary workings of a modern market economy. This is achieved through programmes that redistribute income and pool risks.
- Second, the systems of protection support and protect the development and maintenance of healthy families as a basic social unit.
- Third, as an outcome of the protection, both families and individuals experience an enhanced capacity to develop and maintain successful life paths.
- Fourth, the stability associated with successful life paths generates an enhanced capacity for families and individuals to take on calculated commercial and associated risks focused on economic and social advancement.
- Fifth, at a societal level, this leads to enhanced development with benefits for all. This generates a social surplus which is reinvested via social security, and related social programmes, in the maintenance and development of families.

The overall outcome of a successful system of social security is a society where no family or individual becomes a structural loser or winner. The constant reinvestment in societal stability and development generates a society that is capable of adapting to modernisation and globalisation. The temptation to interrupt this positive cycle as a response to global market developments is likely to lead to long-term developmental and economic failures together with greater inequality and societal stress and insecurity. Where the social and economic outcomes are structurally deteriorating, therefore, the likely cause is a failure to invest in an efficient and effective system of social security.

Figure 4: The role of social security in building a healthy society



SOUTH AFRICA'S SOCIAL OUTCOMES

During the period 2000 to 2013, the central focus of this report, South Africa has experienced limited economic growth and development coupled with deteriorating social outcomes. Of particular concern is evidence of increasing levels of inequality, with no improvements in employment or levels of poverty. While inequality may have its roots in the distribution of human capabilities (e.g. educational levels) the increased levels of inequality exhibited by the top income earners in South Africa suggest the cause lies elsewhere (figures 5 and 6).

Not only have the top income earners increased the share of total remuneration they earn, to levels that are in excess of other countries, they have done so over a relatively short period of time – for instance over the period 1990 to 2011 the top 5% increased their share from around 30% of total remuneration to around 40% (figure 6). This increase is mirrored for the top 1% who increased from around 10% in 1990 to 16.7% by 2011 (figure 5). Such changes are made possible by structural factors affecting the primary distribution of income. These potentially include historical accumulations of wealth and inter alia, the ability of top managers to extract more earnings than ordinary employees.

The distribution of top incomes is only one of a number of outcomes that appear to suggest that the social security system is not operating at a level sufficient to correct for failures in the distribution of income and the distribution of risks (health, old age, disability, and poverty) that impact on the stability of families and individuals.

Figure 5: South Africa top 1% of income earners and their percentage of total remuneration earned compared to Malaysia

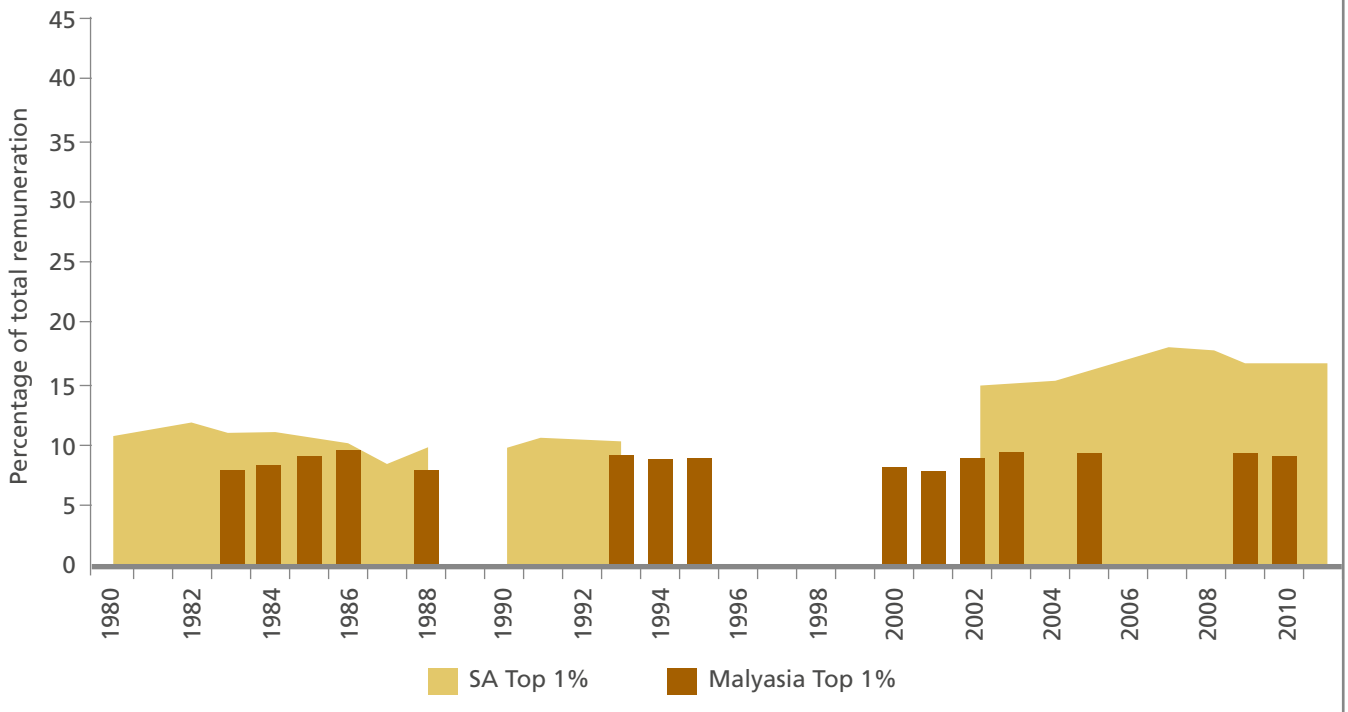
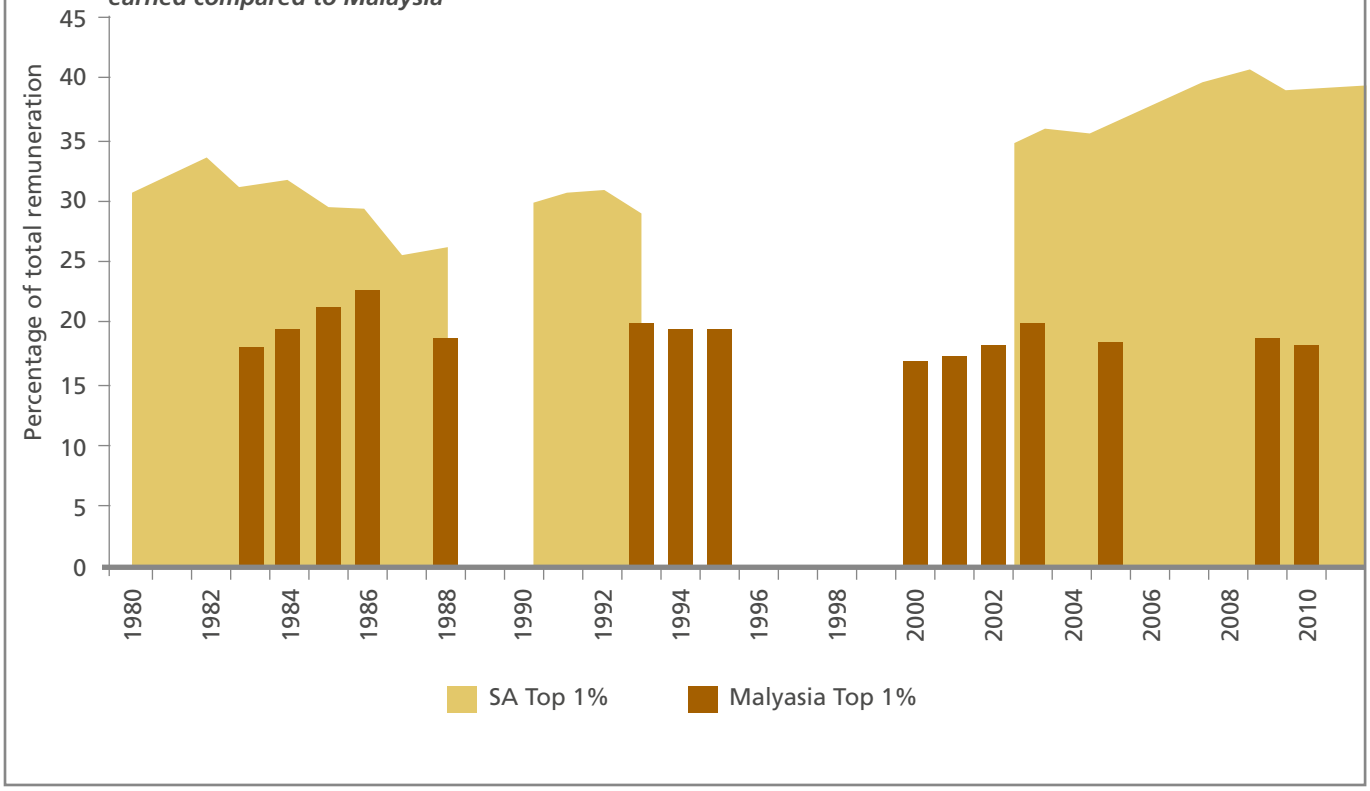


Figure 6: South Africa top 5% of income earners and their percentage of total remuneration earned compared to Malaysia



OVERVIEW OF THE SOCIAL SECURITY SYSTEM

Overall social security expenditure, including public non-contributory, public contributory and private contributory systems amounted to 19.9% of GDP in 2013 or 705 billion (2013 prices). Private contributory expenditure (11.8% of GDP) substantially exceeds public contributory expenditure of only 1.0% of GDP.

Growth in social security expenditure, while significant in Rand terms, has nevertheless decreased as a percentage of GDP from 20.1% in 2001 to 19.9% in 2013. Non-contributory expenditure on social security has increased significantly from 4.7% of GDP in 2001 to 7.2% by 2013. This is largely due to improvements in social assistance, in particular changes in entitlements to the Child Support Grants (CSGs), and public health expenditure.

Table 3: Social security benefit expenditure expressed as a percentage of GDP from 2001 to 2013 (includes administration expenditure)

Scheme	2001	2006	2007	2008	2009	2010	2011	2012	2013
Non-contributory	4.7	6.3	5.5	5.9	6.7	6.9	6.8	7.1	7.2
Contributory - private	14.7	11.2	11.1	11.9	12.1	12.0	11.1	11.5	11.8
Contributory - public	0.6	0.8	0.9	0.9	1.0	1.0	0.9	0.9	1.0
Overall total	**20.0**	**18.3**	**17.5**	**18.7**	**19.8**	**19.9**	**18.8**	**19.5**	**19.9**

Table 4: Social security benefit expenditure from 2009 to 2013 (R'million, 2013 prices) (including administration expenditure)

Scheme	2009	2010	2011	2012	2013
Non-contributory	206 448	222 182	231 215	245 594	253 378
Contributory - private	303 724	328 768	336 290	375 722	417 617
Contributory - public	29 608	31 326	30 382	30 350	33 811
Overall total	**539 780**	**582 276**	**597 887**	**651 666**	**704 806**

FORMAL VERSUS INFORMAL SOCIAL SECURITY

Formal social protection expenditure, which includes public non-contributory schemes, public contributory schemes and medical schemes amounts to 11.4% of GDP in 2013, up from 8.9% in 2001. Excluding medical schemes expenditure this amount declines to 8.1% of GDP.

Formal social security is exclusively made up of contributory private expenditure in the form of regulated medical schemes (3.2% of GDP in 2013), and non-contributory expenditure, in the form of social assistance and public health expenditure. Contributory public expenditure, which also forms part of formal social security, is very small, making up only 1.0% of GDP in 2013.

Informal social security expenditure, amounting to 8.6% of GDP in 2013, is made up of private retirement and risk benefit contributions (for death and disability protection). This reflects a decline from 11.1% in 2001.

Figure 7: Formal social security expenditure expressed as a percentage of GDP

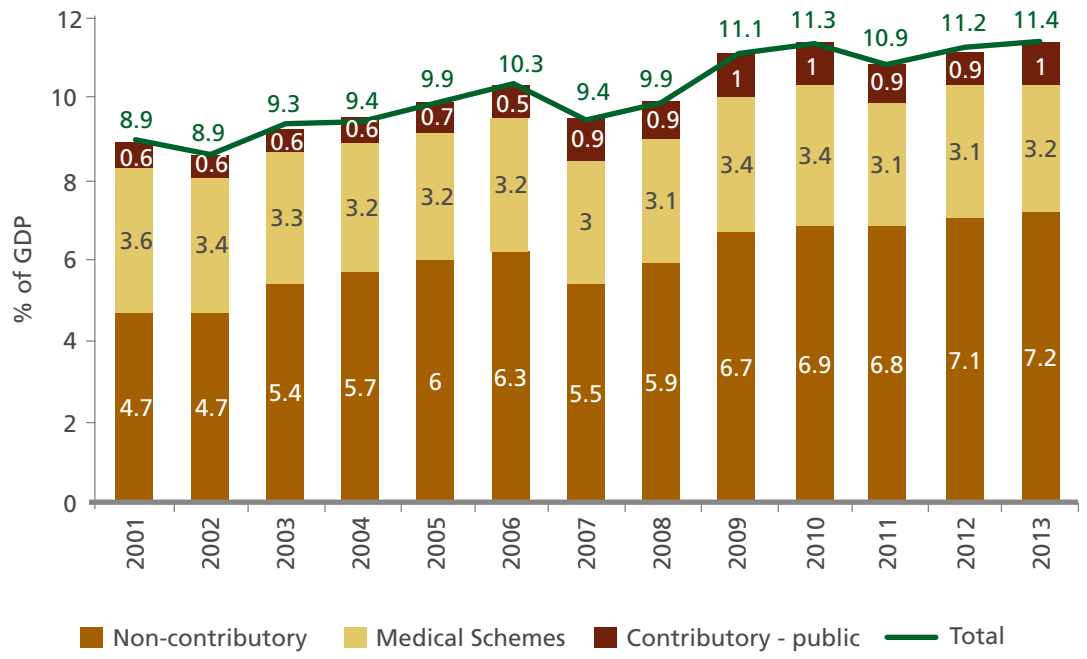


Table 5: Formal and informal social security benefit expenditure expressed as a percentage of GDP (including administration expenditure)

Scheme	2001	2006	2007	2008	2009	2010	2011	2012	2013
Formal Social Security	8.9	10.3	9.4	9.9	11.1	11.3	10.9	11.2	11.4
Formal Social Security (excl. Medical Schemes)	5.4	7.1	6.3	6.8	7.7	7.9	7.7	8.0	8.1
Informal Social Security	**11.1**	**8.0**	**8.1**	**8.8**	**8.7**	**8.5**	**8.0**	**8.3**	**8.6**

NON-CONTRIBUTORY SCHEMES

Overview

Two major non-contributory schemes form part of social security. These include social assistance, which is the largest programme responsible for redistributing income in South Africa, and public health care on which the majority of residents depend for free health services.

Social assistance

Social assistance expenditure has grown from 2.1% of GDP in 2000 to 3.6% of GDP by 2013 largely due to the incorporation of higher age groups of children entitled to the CSG. The number of beneficiaries on the CSG increased from around 1 million (400,000 in 2000) in 2001 to 11.3 million in 2013. Significant increases also occurred in the State Old Age Pension (SOAP) and the Disability Grant. This took the overall number of beneficiaries from around 4 million in 2000 to 16.1 million by 2013. Support explicitly intended for children therefore constitutes 73.7% of social assistance, with that for the aged making up 17.8%.

Figure 8: Social assistance expenditure expressed as a percentage of GDP from 2001 to 2013

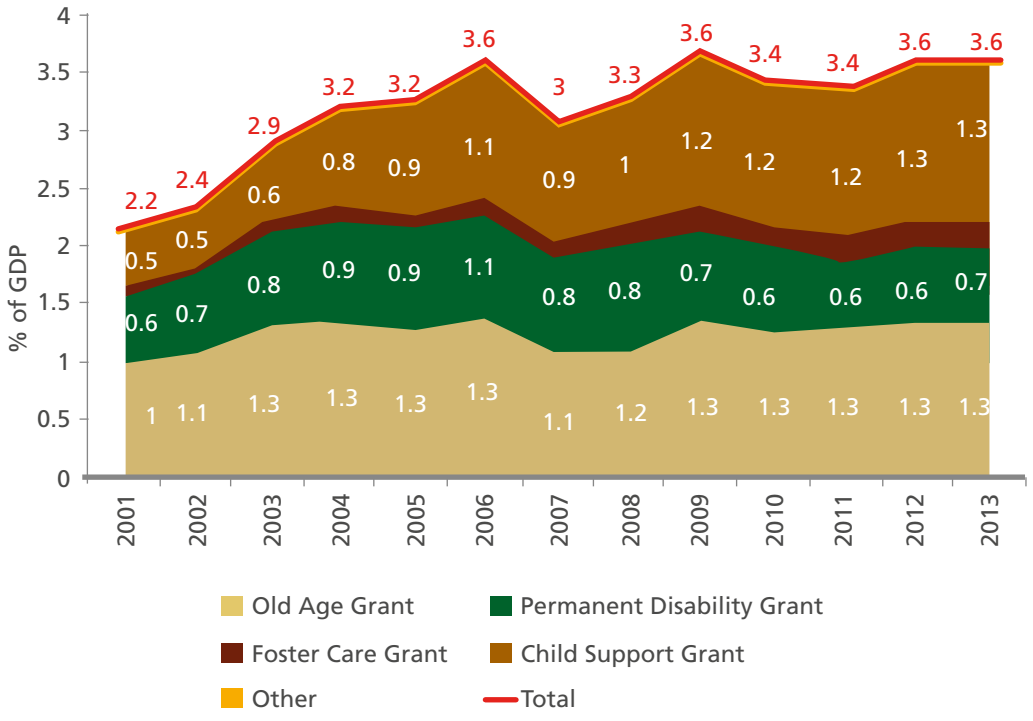
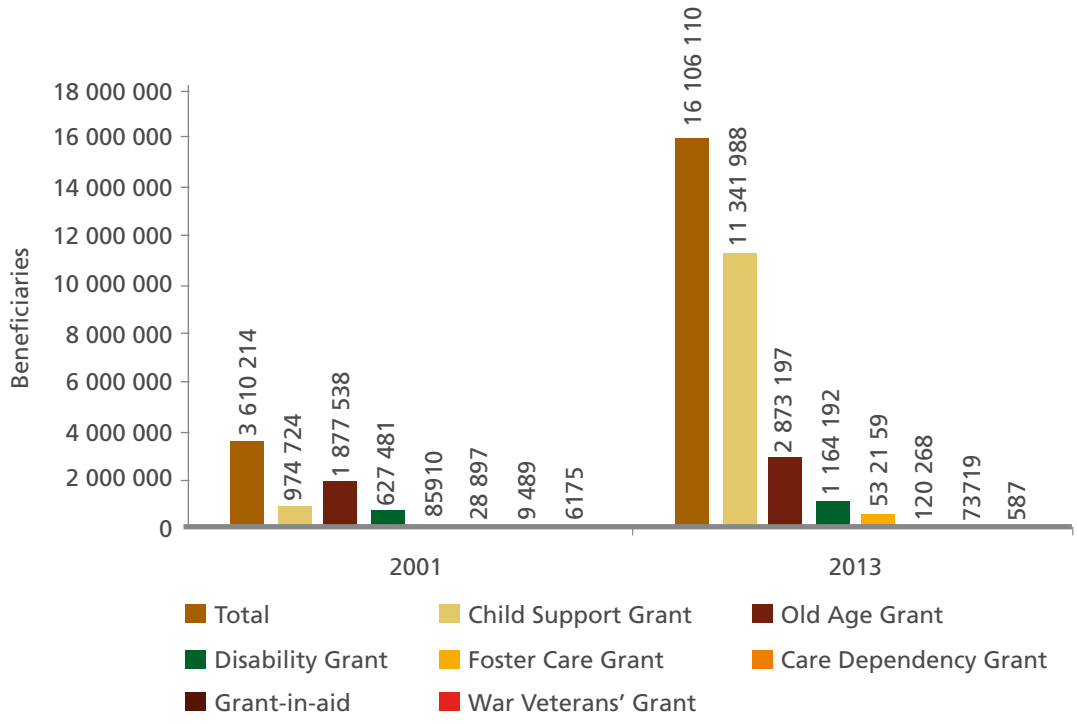


Figure 9: Social assistance beneficiaries 2000 and 2013



Grant benefit values have remained roughly constant when adjusted for the Consumer Price Index (CPI) with a very slight improvement indicated over the period 2001 to 2013 (table 6). Grant increases have however not improved with GDP (table 7) suggesting that grant improvements are not adjusted for general improvements in general living standards. Therefore, although overall grant expenditure has increased slightly in relation to GDP, the level of support per beneficiary has shown no real improvement.

Table 6: Grant benefit values (Rands, 2013 prices)

Type of Grant	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Old age grant	1 124	1 156	1 195	1 246	1 270	1 277	1 264	1 231	1 235	1 266	1 273	1 269	1 260
Old age grant, 75+	0	0	0	0	0	0	0	0	0	1 290	1 295	1 290	1 280
War veterans grant	1 160	1 188	1 226	1 276	1 300	1 305	1 294	1 257	1 259	1 290	1 295	1 290	1 280
Disability grant	1 124	1 156	1 195	1 246	1 270	1 277	1 264	1 231	1 235	1 266	1 273	1 269	1 260
Grant-in-aid	217	235	256	286	293	296	291	275	293	293	290	296	290
Foster care grant	809	831	854	892	912	919	901	851	831	832	826	814	800
Care dependency grant	1 124	1 156	1 195	1 246	1 270	1 277	1 264	1 231	1 235	1 266	1 273	1 269	1 260
Child support grant	217	253	273	286	293	296	291	275	293	293	290	296	290

Table 7: Grant benefit values (Rands, adjusted for GDP - 2013)

Type of Grant	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
State old age grant	1 892	1 850	1 862	1 770	1 681	1 571	1 461	1 399	1 427	1 372	1 316	1 294	1 260
Old age grant, 75+	0	0	0	0	0	0	0	0	0	1 398	1 339	1 316	1 280
War veterans grant	1 952	1 902	1 910	1 813	1 720	1 605	1 494	1 429	1 455	1 398	1 339	1 316	1 280
Disability grant	1 892	1 850	1 862	1 770	1 681	1 571	1 461	1 399	1 427	1 372	1 316	1 294	1 260

Type of Grant	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Grant-in-aid	365	376	399	407	388	364	336	313	339	318	300	302	290
Foster care grant	1 361	1 330	1 330	1 268	1 207	1 130	1 041	968	961	902	854	830	800
Care dependency grant	1 892	1 850	1 862	1 770	1 681	1 571	1 461	1 399	1 427	1 372	1 316	1 294	1 260
Child support grant	365	405	426	407	388	364	336	313	339	318	300	302	290

The means tests (table 8), which are established to target grants at the poor, while showing an adjustment for inflation from 2001 to 2013, demonstrate quite different thresholds for alternative grants. This implies that the targets are not determined in relation to any specific measure of need.

Table 8: Means test values for selected social grants compared to the tax threshold for 2013 (2013 prices)

Means test	2001	2010	2011	2012	2013	Tax threshold - 2013		
						Primary	65+	75+
Asset threshold	**Older persons, disability & war veterans**					63 556	99 056	110 889
• Single person	741 918	835 641	840 153	837 350	831 600			
• Spousal relationship	1 483 836	1 671 282	1 680 306	1 674 699	1 663 200			
Income threshold								
• Single person	51 147	57 609	57 920	57 726	57 330			
• Spousal relationship	102 295	115 217	115 839	115 453	114 660			
Income threshold	**Child support grant**							
• Single person	26 032	35 170	34 839	35 524	34 800			
• Spousal relationship	52 064	70 340	69 678	71 048	69 600			
Income threshold	**Care dependency grant**							
• Single person	134 894	151 935	152 755	152 245	151 200			
• Spousal relationship	269 788	303 869	305 510	304 491	302 400			

Except in the case of the CSG, none of the means tests adjust over time for GDP growth. Overall the means tests remain fairly static without any significant progression over time.

The income thresholds, which should bear some relation to the primary tax threshold, indicate a small differential for the older persons; disability and war veterans grants, are significantly lower for the CSG (R57,330 versus R63,556). The care dependency grant is however higher than the other two, but very rarely claimed as a benefit.

Two areas of policy could be raised: first, improvements in coverage may be needed to include more beneficiaries within a system of income protection. Second, the system of income protection would be more socially beneficial if linked in some way to improvements in living standards. Although improvements have been made in the former (coverage), there is no explicit policy regarding the latter (matching living standards).

Table 9: Means test values for selected social grants compared to the tax threshold for 2013 (2013 GDP deflator)

Means test	2001	2010	2011	2012	2013	Tax threshold - 2013		
						Primary	65+	75+
Asset threshold	**Older persons, disability & war veterans**					63 556	99 056	110 889
· Single person	742 349	835 641	840 153	837 350	831 600			
· Spousal relationship	1 484 698	1 671 282	1 680 306	1 674 699	1 663 200			
Income threshold								
· Single person	59 377	58 608	58 005	57 868	57 330			
· Spousal relationship	118 753	117 215	116 010	115 736	114 660			
Income threshold	**Child support grant**							
· Single person	30 221	35 780	34 890	35 611	34 800			
· Spousal relationship	60 441	71 560	69 781	71 222	69 600			
Income threshold	**Care dependency grant**							
· Single person	156 598	154 569	152 980	152 619	151 200			
· Spousal relationship	313 196	309 138	305 961	305 239	302 400			

Public health expenditure (in-kind-services)

The public health system could be regarded as a system of insurance, offering both financial risk protection and access to needed health services. The former, protects households from any financial loss that may result from the purchase of health services, while the latter, ensures that needed health services are available and accessible when needed. Financial risk protection occurs either through the provision of free health services or through some form of pre-payment (insurance – for instance through medical scheme contributions). For households without adequate income access is guaranteed in two ways: firstly, services are made available without charge; and secondly, services are spatially accessible.

The population roughly dependent on the availability of subsidised public services has, over the period 2001 to 2013, grown from 37.9 million to 44.2 million – an additional 6.3 million people. Those paying to use medical schemes, and therefore predominately covered outside of the public sector, over the same period, grew from 7.0 million to 8.8 million – an additional 1.8 million, or just less than half the overall increase in public sector users. Public health expenditure as a percentage of GDP has increased from 2.7% of GDP in 2001 to 3.8% by 2013. Although superficially reflecting good growth, this increase is just slightly less than required to accommodate population growth over the period.

Figure 10: Public health sector and medical schemes catchment populations

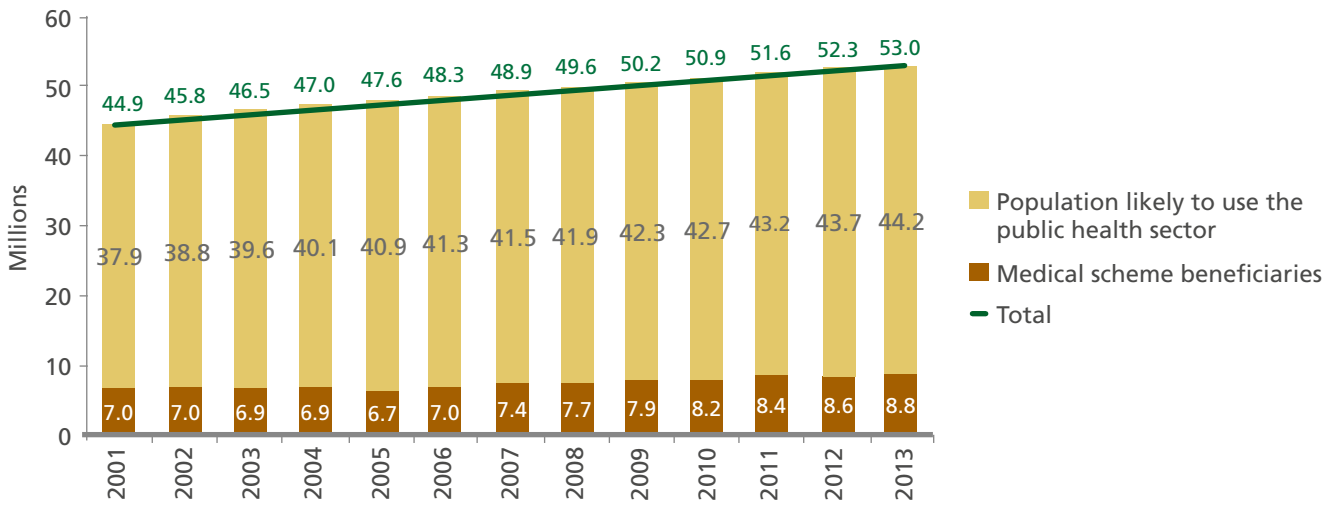
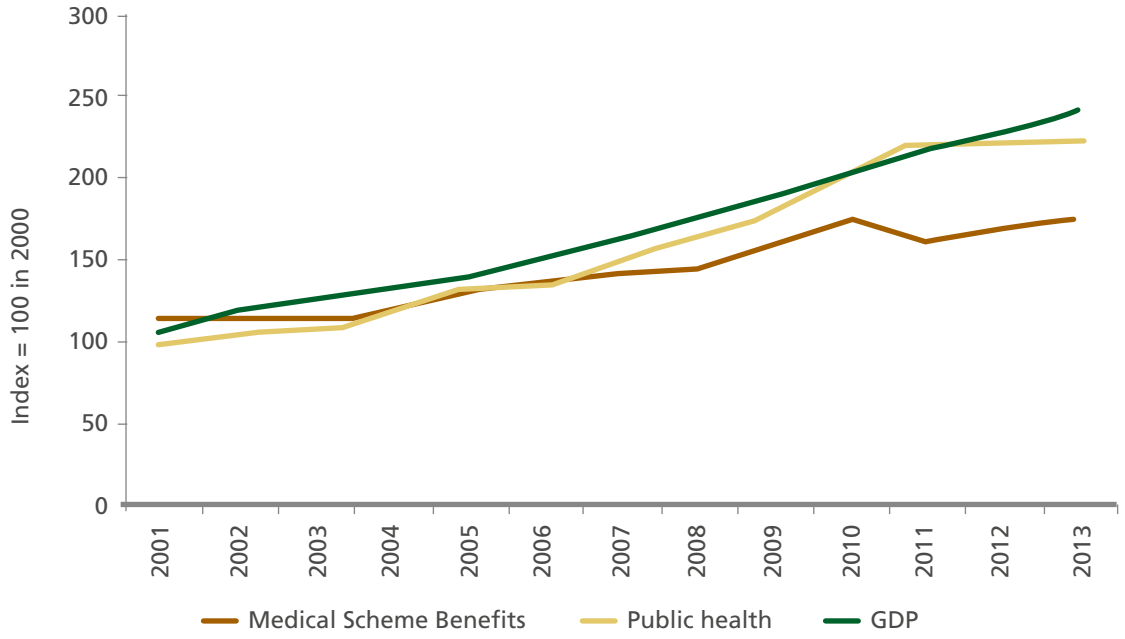


Table 10: Public health expenditure from 2001 to 2013 (R'million, 2013 prices)

Scheme	2001	2008	2009	2010	2011	2012	2013
Public Health	28 643	73 715	89 553	100 457	112 058	123 655	133 293
Public Health (% of GDP)	2.7	3.1	3.6	3.7	3.7	3.8	3.8

Figure 11: Health expenditure as a percentage of GDP from 2001 to 2013 expressed as a percentage of GDP (index = 100 in 2000)



Overall, while public health expenditure has roughly kept pace with GDP growth; medical scheme benefit expenditure has shown a declining trend relative to GDP from 2007. Medical schemes contribution expenditure has also dropped below public health expenditure as a percentage of GDP, suggesting that medical schemes are keeping contribution growth below that of the public sector – although much of this is from benefit attrition rather than actual cost containment.

CONTRIBUTORY SCHEMES

Overview

There are three main forms of contributory social security scheme: public contributory, health care – in the form of medical schemes, and old age protection and risk benefits, loss of income (invalidity) and support (death of a breadwinner).

Public contributory

Public contributory expenditure is small in comparison to both public non-contributory expenditure and private contributory expenditure. Over the period 2000 to 2013, very little has changed, with overall expenditure rising from 0.6% of GDP to 1.0%. Unemployment insurance has shown no substantial change over the period, even the period of economic recession following 2008. Over the same period, however, reserves have increased substantially. Road Accident Fund (RAF) expenditure has, by way of contrast, roughly doubled over the same period as a percentage of GDP, from 0.2% to 0.4%.

Figure 12: Contributory public expenditure (including administration) by scheme (R'million, 2013 prices)

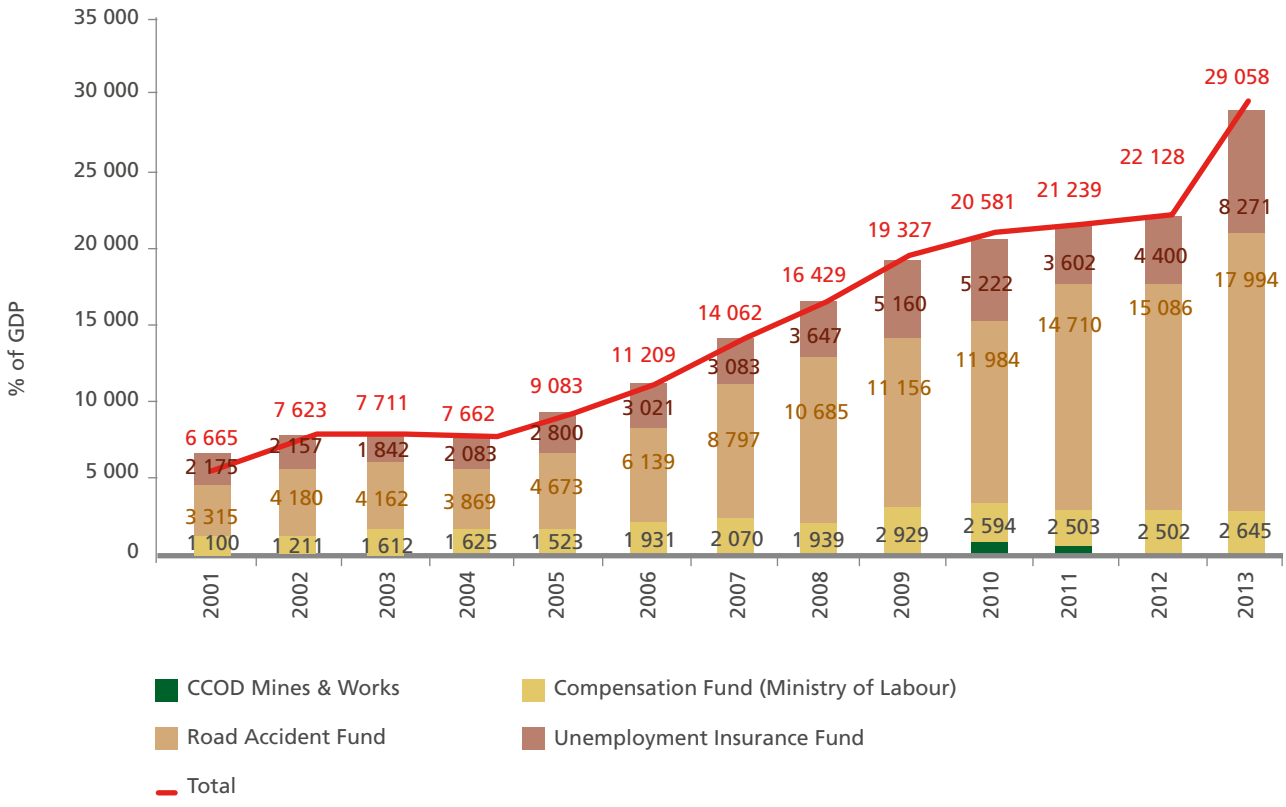
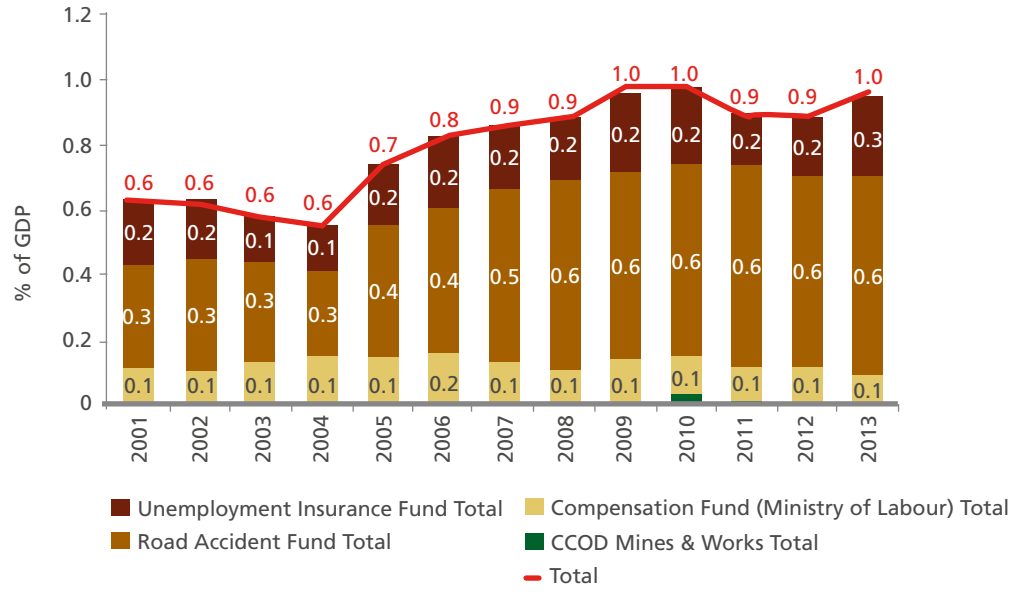
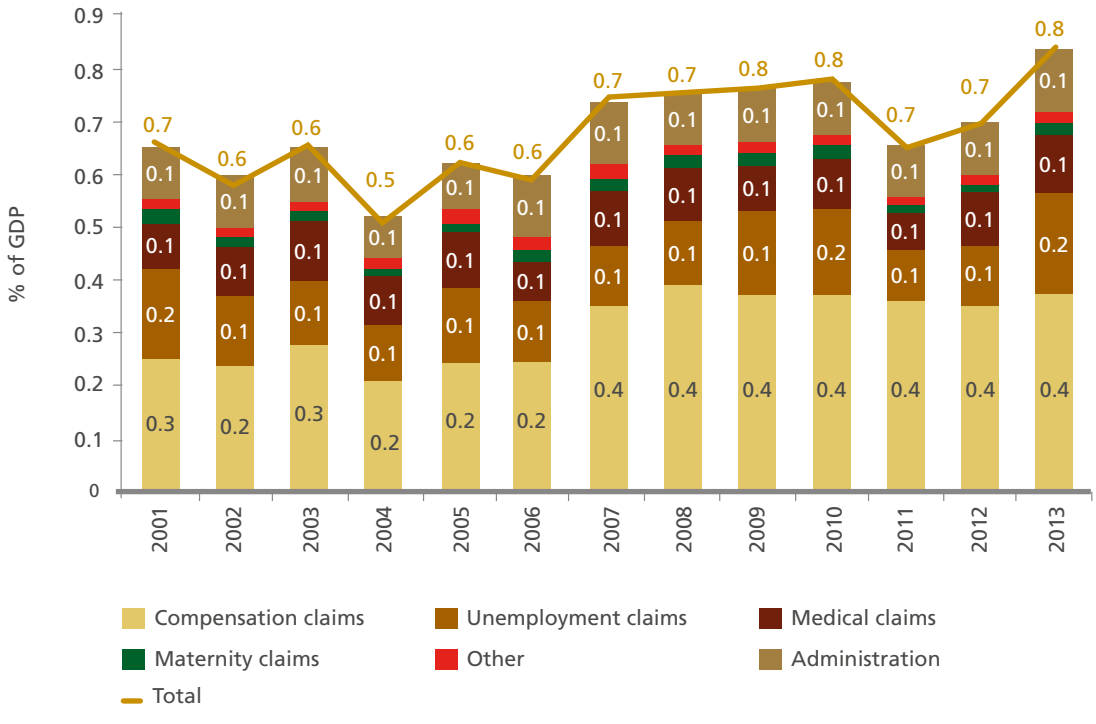


Figure 13: Contributory public expenditure (including administration) by scheme (% of GDP)



When considered by contingency covered, medical and unemployment claims have remained 0.1% and 0.2% of GDP respectively over the entire period. Claims for compensation and general damages (in the case of the RAF) have, however, doubled over the period, from 0.2% of GDP to 0.4% of GDP. Claims for general damages do not however represent improved social security expenditure and reflect instead court determinations which will be biased toward higher-income claimants (as damages for higher-income individuals tend to be higher than for lower income individuals). Administration costs remain a constant 0.1% of GDP, which is equivalent in value to total medical claims.

Figure 14: Contributory public expenditure (including administration) by contingency (% of GDP)



Health care – medical schemes

Although some contributory health benefits are obtainable under public contributory schemes this is minor (see figure 14) in relation to both the non-contributory public health system and medical schemes. Medical scheme gross contribution income has ranged between 3.5% and 3.7% of GDP over the period 2001 to 2013. Expenditure on benefits (claims) has ranged between 3.0% and 3.2% of GDP over the same period. Differences between contributions and expenditure arise from administration expenditure (managed care and administration), fees paid to brokers (for open commercial schemes), reserve building and debt write-offs.

A distinction is typically made between medical scheme members (principal members) who pay the contributions, and dependents that are covered in addition to the member. Both members and dependents are referred to as beneficiaries. Medical schemes have existed since 1888, and predate the formal establishment of both the domestic and many international health systems.

Conventional actuarial insurance approaches result in the systemic exclusion of vulnerable risk groups from coverage, particularly older persons and those with pre-existing or chronic medical conditions. Medical schemes are consequently regulated to ensure that vulnerable risk groups cannot be excluded from coverage. Measures include open enrolment, whereby medical schemes cannot refuse enrolment based on inter alia health status; community rating, whereby contributions cannot take into account the specific risk factors of any individual or group; and mandatory minimum benefits, whereby medical schemes must cover certain minimum benefits. This protective framework ensures that individuals and families able to contribute financially toward their own healthcare can obtain coverage across their complete life cycle.

Table 11: Health benefit expenditure as a percentage of GDP from 2001 to 2013

Scheme	2001	2008	2009	2010	2011	2012	2013
Medical schemes	3.5	3.1	3.4	3.5	3.5	3.6	3.7
Public health	2.7	3.1	3.6	3.7	3.7	3.8	3.8
Total	*6.3*	*6.2*	*7.0*	*7.2*	*7.3*	*7.4*	*7.4*

Medical scheme beneficiaries have increased by nearly 2 million over the period 2001 to 2013, with much of the increase beginning from 2006 – the year the Government Employees Medical Scheme was launched. In 2013 total beneficiaries reached 8.8 million, made up of 3.9 million principal members and 4.9 million dependents. Beneficiaries in 2013 made up 16.6% of the total population, up from 15.8% in 2000.

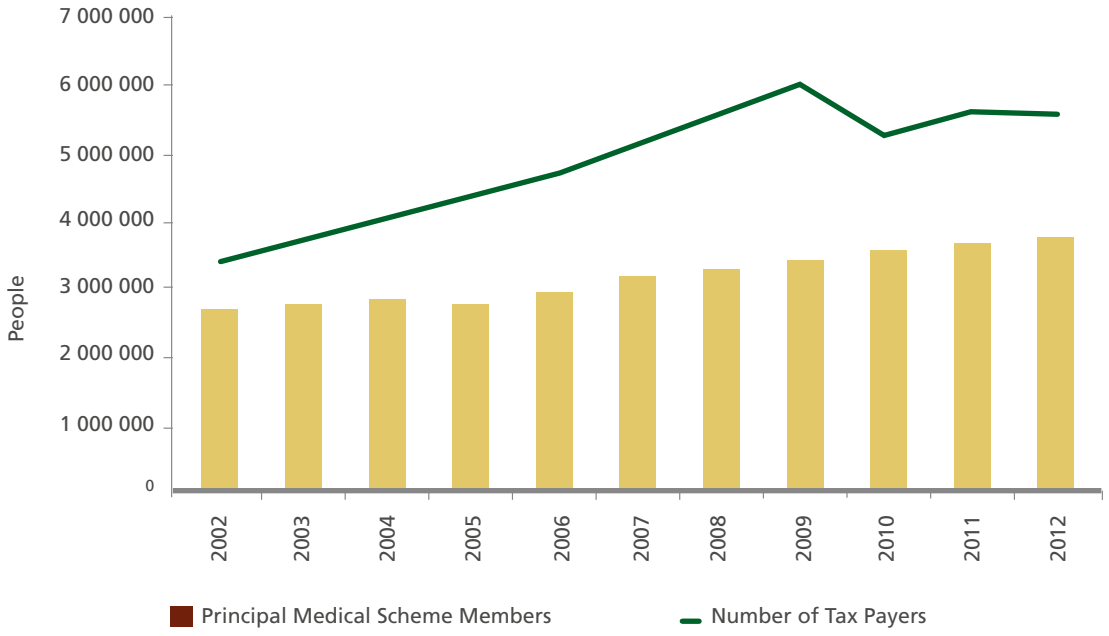
Table 12: Medical scheme contributions and benefits per beneficiary per annum (2013 prices)

	2001	2008	2009	2010	2011	2012	2013
Contributions	10 462	12 533	13 053	13 721	14 256	14 440	14 789
Benefits	9 436	10 942	11 740	12 050	11 102	11 512	11 499

An expected relationship should exist between individuals who are eligible to pay personal tax and the number of principal members (excluding dual income families). Although principal members have increased since 2002, the increase is not as great as the number of tax payers (figure 15). This suggests that a certain number families with potentially adequate incomes, sufficient to contribute toward their own health care, find the private system too costly. Roughly speaking, this would amount to around 1 million potential principal members and an additional 2 million dependents – or 3 million beneficiaries in total.

This group would (technically) also be excluded from free public hospital services due to the existence of a means test which requires persons earning in excess of R6,000 (which is also below the primary tax rebate) per month to pay all charges. Including income earners below the tax threshold, there is a population of roughly 5 million who fall outside the public hospital means test and are unable to join a medical scheme. This group is also largely excluded from both income-related subsidies provided to facilitate access to health care. First, they fall outside the means test for free access to public hospitals. Second, their incomes are too low to qualify for the tax credit (discussed further below). There is consequently a gap in the subsidy framework, which largely affects low- to middle-income families.

Figure 15: Tax payers compared to medical scheme principal members (2003 to 2013)



Private pensions

The system offering privately organised old age protection in South Africa is diverse and not well documented. Information on the system is also complicated by the ability of persons to be members of more than one scheme. Pension arrangements are also supervised by multiple regulators with no organised system of information to distinguish them. As a consequence, only high-level trends can be provided, with contributor and beneficiary information invariably an overstatement of the numbers of actual contributors and beneficiaries.

Contributions towards old age represent a form of income-smoothing over a person's life-time. Implicit in these arrangements is the understanding that frailty associated with old age will diminish and/or eliminate the possibility of earning an income through work. This is therefore, a period in a person's life when they will need to support themselves with savings of some form accumulated during their working life. Although there are many options available to accumulate wealth during a working career (owning a home, savings accounts, unit trusts, shares, etc.), some financial vehicles exist that are dedicated to old age protection. In South Africa, these take the form of pension funds of various forms and long-term insurance products.

South Africa presently has no formal social security regime that ensures that income earners have adequate access to income in later life. Only private voluntary arrangements exist, the quality of which varies by employment regime. Also, the frequency with which individuals move between different employment regimes affects the quality of coverage across the full working career irrespective of the quality of the available schemes and products.

There are essentially five basic pensions regimes in South Africa:[1]

- **Underwritten funds:** Funds operating exclusively by means of insurance policies issued by registered insurers in South Africa.
- **Privately administered funds:** Funds investing their assets, on their own behalf, with bodies and institutions in the public and private sectors of the economy.
- **Official funds:** Funds established by special laws for employees of the State and certain parastatal institutions. The National Treasury supervises these funds under the relevant laws. Currently the following four official funds exist: Government Employees Pension Fund (GEPF), Temporary Employees Pension Fund, Associated Institutions Pension Fund and Associated Institutions Provident Fund. In this evaluation only the GEPF and the Transnet fund (included in other below) are incorporated under the heading official funds as these are of significant size and have consistent data over time.

[1] Financial Services Board. Report by the Registrar of pensions Funds.

- **Other (not included in this evaluation)[2]:** Transnet Fund; Telkom Pension Fund; Post Office Pension Fund; and bargaining council funds.
- **Long-term insurance old age products:** Outside of the Fund Policies, which insure the underwritten funds and are therefore captured in their results, life annuities are provided on an individual basis. Information on what constituted a benefit in respect of old age, disability or death is not easy to distinguish and therefore the information provided here must be treated with some caution. Information on contributors and beneficiaries are not available and therefore excluded from this review.

Overall contributions to pension funds constituted 7.7% of GDP in 2000, declining to 6.3% of GDP by 2013. The explanation for the decline is not clear, and may have something to do with increasingly significant early withdrawals from pension funds and some possible substitution into alternative forms of savings (for instance real estate) up to 2008. Total assets under management by 2013 amounted to roughly R3.2 trillion. Privately administered funds make up the largest component with 29.6% of total contribution expenditure in 2013.

Overall pensions paid out as benefits have remained roughly constant in 2013 prices, at R81.4 billion in 2000 compared to R81.1 billion in 2013. However, on the reported information it is not possible to distinguish clearly between the different reasons for payment of a pension (for instance both for old age or loss of support). Benefits paid out for retirement/disability amount to R59.9 billion in 2013, distinct from benefits defined as pensions.

A substantial portion of benefits paid out, reflecting 25.6% of all benefits in 2013, were as a consequence of resignations. It is however, not clear how much of this was transferred to other pension funds or withdrawn entirely. It is therefore very difficult to draw clear conclusions about the effectiveness of the private retirement system. Previous estimates of the replacement rates achieved by the private sector, at 28%[3] and 24%[4], are very low and suggest that overall protection outcomes are weak in comparison to the annual levels of contribution paid.

Table 13: Private pensions contributions by broad pensions regime (2013 prices)

Private pension regime	2000	% of total	2007	% of total	2013	% of total
	Contributions (2013 prices)					
Pensions official	30 794	20.9	34 966	20.5	49 716	23.3
Privately admin. & prov. funds	43 601	29.6	71 143	41.7	93 038	43.5
Underwritten funds	33 951	23.1	25 928	15.2	31 650	14.8
Long-term insurance old age	38 882	26.4	38 575	22.6	39 335	18.4
Total	**147 228**	**100.0**	**170 612**	**100.0**	**213 739**	**100.0**
	Contributions as a percentage of GDP					
Pensions official	1.6	20.9	1.2	20.5	1.5	23.3
Privately admin. & prov. funds	2.3	29.6	2.4	41.7	2.7	43.5
Underwritten funds	1.8	23.1	0.9	15.2	0.9	14.8
Long-term insurance old age	2.0	26.4	1.3	22.6	1.2	18.4
Total	**7.7**	**100.0**	**5.8**	**100.0**	**6.3**	**100.0**
	Benefits (2013) - pension schemes only					
Pensions	81 395	48.0	80 006	41.5	81 114	36.1
Retirement/death	41 264	24.3	50 803	26.4	59 909	26.7
Resignation	41 449	24.4	55 601	28.9	57 374	25.6
Other	5 588	3.3	6 218	3.2	26 137	11.6
Total	**169 696**	**100.0**	**192 628**	**100.0**	**224 534**	**100.0**

[2] These funds do not provide reports to the Financial Services Board. They are however small in number and are likely to exhibit similar trends to the main funds reported on.
[3] Department of Social Development.
[4] National Treasury.

Private pension regime	2000	% of total	2007	% of total	2013	% of total
	Benefits as a percentage of GDP - pension schemes only					
Pensions	1.0	24.2	0.7	26.0	0.7	29.8
Retirement/death	1.0	23.0	0.8	28.0	0.6	25.0
Resignation	0.4	9.6	0.1	1.9	0.0	0.6
Other	1.8	43.3	1.2	44.1	1.1	44.6
Total	**4.2**	**100.0**	**2.8**	**100.0**	**2.4**	**100.0**

Overall contributors to the main retirement funds have increased from 8 million in 2005 to 10.4 million by 2012. Overall beneficiaries have, by way of contrast, declined from just over 1 million to 0.95 million. The largest increase in contributors has occurred with privately administered funds (3.2 million in 2005 to 5.5 million in 2011) together with a slight increase in beneficiaries.

Unclaimed benefits are a feature of the private retirement industry, with dramatic increases over the period 2005 to 2012. The values are extraordinary when seen in relation to the actual numbers of beneficiaries. In 2012, for instance, the number of beneficiaries with unclaimed benefits was nearly 7 times the number of beneficiaries claiming benefits. For underwritten funds, beneficiaries with unclaimed benefits outnumbered actual beneficiaries by 4 times.

Figure 16: Contributors and beneficiaries of privately administered and underwritten pension funds (estimates for 2005 and 2012, millions, headcount)

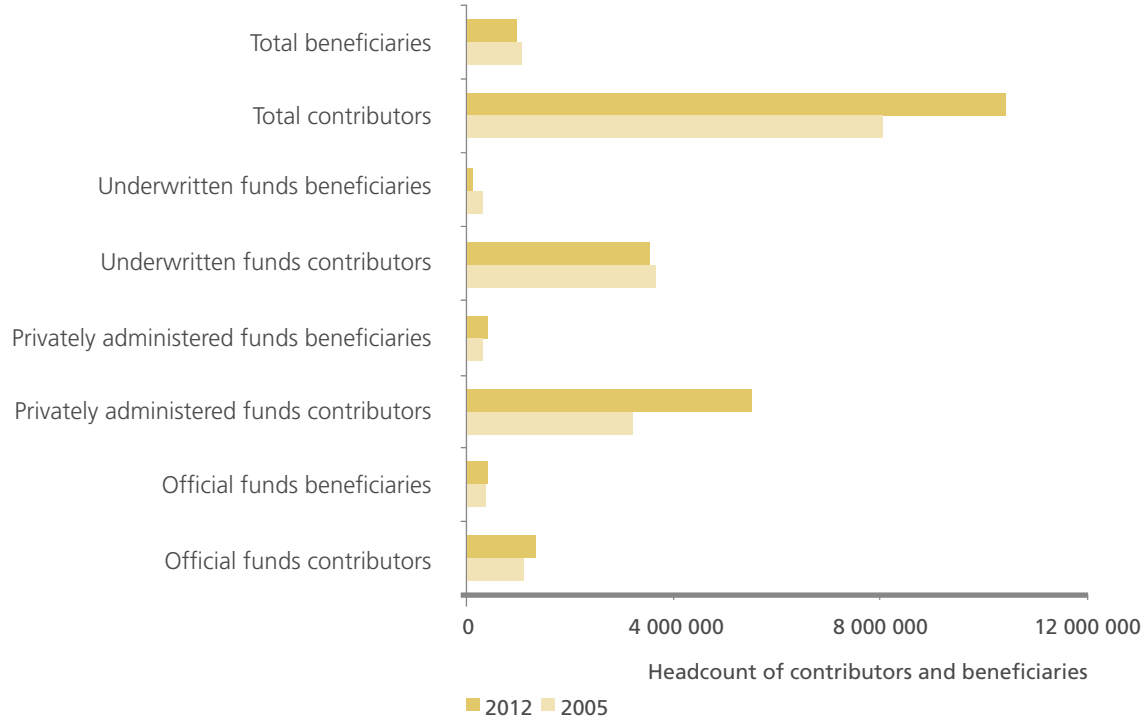
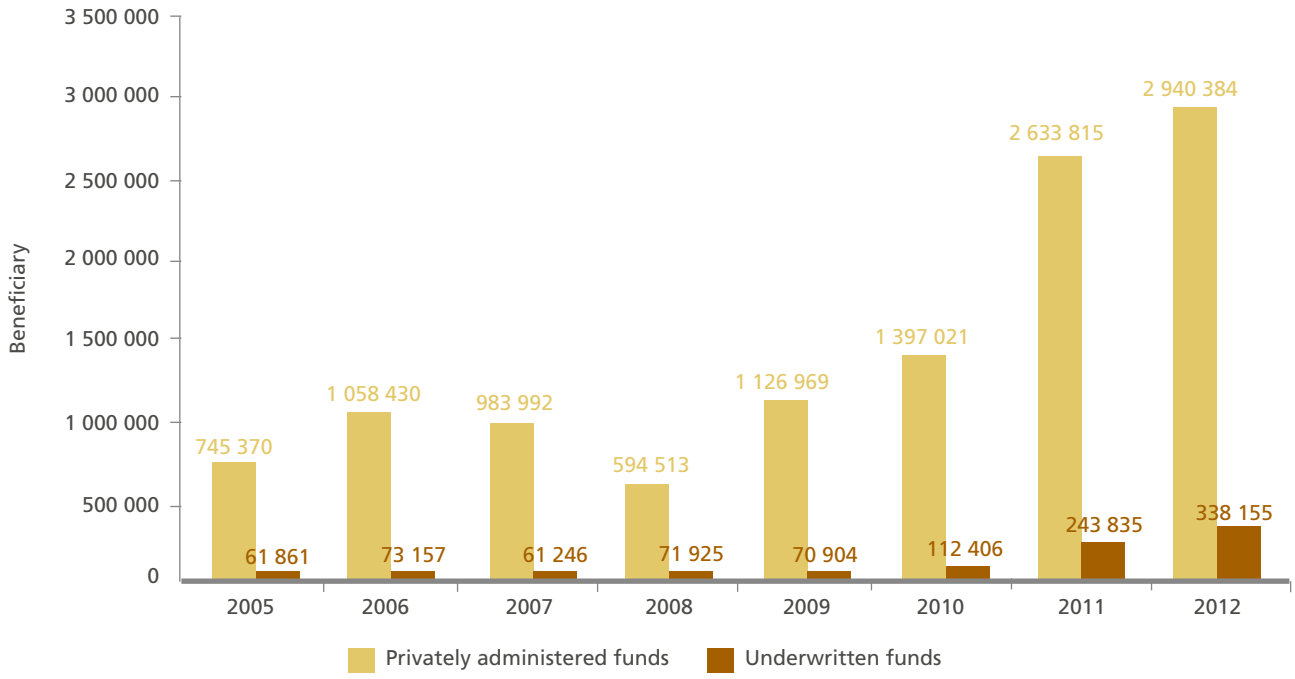


Figure 17: Unclaimed benefits by beneficiary (2005 to 2012)



Private risk benefits

It was not possible to produce a comprehensive overview of key risk benefits offered within the voluntary private pensions and insurance markets in South Africa. Contributions and benefits are not always distinguished along these lines making it impossible to attribute accurately. The main risk benefits of interest to the social security system are those in respect of death (loss of support) and invalidity/disability. Coverage for these contingencies can either be accessed on a group basis, via an employer pension and/or insurance arrangement, or via individual products which can be sold on a bundled or unbundled basis using long term insurance products[5].

Protection sold via a group scheme typically offers better protection for any contribution paid, largely due to lower marketing/broker fees, lower administration costs, and easier underwriting conditions and better risk pooling. The individual underwriting that accompanies individual policies is the explicit outcome of the weaker risk pooling opportunities available. Group schemes are, by way of contrast, able to risk pool to a far greater degree, even when underwritten on a group basis. Long-term insurance arrangements are used to underwrite group retirement schemes or provident funds – referred to as fund policies. This underwriting covers both the old age and risk benefits. In 2013 contributions/premiums paid to fund policies amounted to R178.1 billion[6].

Disability business, reported separately from fund policies or other life business (which includes life annuities), amounted to only R7.9 billion[7] in 2013, which understates the true value of private coverage. A complete picture would require inclusion of coverage via group pension schemes and provident funds, group insurance arrangements, individual life annuities and bundled life and disability life policies.

It is also not possible to quantify the actual coverage and quality of coverage for these risk benefits, with information on contributors, dependents and beneficiaries unreliable. While it can be assumed that all persons covered by a conventional group pension scheme or provident fund are also covered for risk benefits, the quality of this coverage cannot be determined or even properly estimated. From 1998 many employers downgraded their risk benefits in response to the threat of HIV and AIDS, at the same time as a switch occurred from defined benefit to defined contribution

[5] A long term insurance product offers a long-term promise to provide benefits in respect of designated premiums which are underwritten only on entry, unlike short-term products where premiums can be adjusted to fit changing risk profiles at the discretion of the insurer. Long term products are regulated in terms of the Long Term Insurance Act and overseen by the Financial Services Board.

[6] Financial Services Board, 2013.

[7] Fund policies cover more than just retirement arrangements. The total contribution income will therefore be significantly higher than total contributions reported to the Registrar of Pension Funds.

schemes. It can be expected that risk benefits coverage declined considerably over the early 2000s and has never recovered.

Within this report a crude estimate of the value of risk benefits is made up based on assumptions for the period 2000 to 2013. Substantial increases in expenditure have occurred over this period, from R77.3 billion to R172.3 billion (2013 prices). This equates to an overall increase from 4.0% of GDP in 2000 to 5.1% of GDP in 2013. The largest increase is indicated in loss of support/death benefits, which rises from 2.7% of GDP to 3.1%. Overall expenditure on these risk benefits exceeds that on private or public health care or social grants. It is, however, hoped that information on these expenditures will improve over time.

Table 14: Risk benefit estimates for 2000 and 2013, contribution expenditure (R'million) and percentage of GDP

Risk benefits[8]	Contribution expenditure		% of GDP	
	2000	2013	2000	2013
Invalidity/disability	26 263	66 938	1.4	2.0
Loss of support/death	50 996	105 324	2.7	3.1
Total	**77 259**	**172 262**	**4.1**	**5.1**

[8] Another method is used to estimate the value of these benefits for table 20 – which limits the value to coverage provided only by pensions schemes.

TAX EXPENDITURE SUBSIDIES

Tax expenditure subsidies (TES) are implicit government transfers provided through the tax system. Their use is quite often regarded as controversial as the levels of transfer are not formally voted on by government in a transparent manner, as occurs with on-budget expenditures. Added to this is the difficulty with assessing their quantum, incidence and policy impact. Due to their low visibility such subsidies are typically not monitored or reviewed. In South Africa two substantial subsidy regimes exist, one for old age protection and the other applicable to private health medical scheme contributions and out-of-pocket payments.

For pension arrangements this takes the form of a tax deduction, tax free returns on investments (ROI), and a tax free portion of a final lump sum payout. Income earners who are over the ages of 65 benefit from a tax rebate (secondary tax rebate), while those over the age of 75 benefit from an additional tax rebate (tertiary tax rebate). There are consequently five TESs applicable to income earners in old age.

For medical scheme members the TES initially took the form of a tax deduction on contributions, which, in 2012/13, was converted into a tax credit. In addition, any purchase of out-of-pocket health care services and products in excess of 7.5% of income qualifies for a deduction. The tax credit approach is argued to be more equitable as the value of the tax benefit is fixed, and therefore, does not increase with taxable income – a notable flaw with the former tax rebate.

National Treasury publishes estimates of both (medical scheme and old age) TES regimes in the Budget Review (tables 15 and 16). According to these estimates the old age TES has increased in real terms from R23 billion in 2006 to R35 billion by 2013 (2013 prices). The private health TES has also increased in value from R16 billion in 2006 to R22 billion in 2013.

However, whereas the private health TES is relatively easy to quantify[9], the private old TES calculation, which quantifies only four of five subsidies, is complicated by offsetting tax payments occurring when benefits are paid out either as a lump sum or through an annuity income. The underlying, and implicit rather than explicit, goal of pensions-related subsidies is that taxation is deferred rather than not collected, i.e. a life cycle approach is adopted to tax collections related to pensions arrangements.

However, National Treasury provides no information on tax receipts associated with withdrawals or benefit payments from pensions or retirement annuity products or schemes. No definitive judgement on the fiscal fairness of the old TES can be made without revealing this information.

The following five instances result in an offset to the value of the TES indicated in table 15: first, early withdrawals of retirement savings, which are substantial in any given year, attract full taxation; second, death and disability benefits paid out on an annuity basis attract normal personal income tax (PIT); third, at retirement, or maturity of the pension arrangement, amounts paid out in excess of a tax-free lump-sum, are taxed as PIT; fifth, any annuity income earned from a pension arrangement is subject to PIT in the year of receipt.

There are five instances where any deferred tax is reduced due to further tax benefits applicable to periods in the life cycle when deferred income is taxed differently to periods in which it was earned: first, early withdrawals are treated differently to normal earnings, although capped; second, lump sum payments on retirement, death or disability benefits face a lower marginal tax rate, with the first R500,000 attracting no taxation; third, incomes in retirement are lower than during the years of employment and therefore attract low marginal tax rates; and fourth, the secondary and tertiary tax rebates reduce the tax liabilities of income earners over the age of 65.

An additional confounding variable is the tax free status of retirement savings. While National Treasury offers up an estimate of interest exemptions unrelated to retirement savings, which amounted to R1.2 billion in 2013/14 (table 15), no equivalent estimate is provided for the same benefit provided via retirement schemes. The value of such a benefit is however likely to be substantial – even exceeding the static values of the subsidies indicated in table 15.

Although a quantification of the interest exemptions applicable to retirement schemes is beyond the scope of this report, a rough indicator of its potential significance is provided in table 14, which indicates that lost tax revenue of around R32 billion occurred in 2013 due to the exemption. This is based on R3.2 trillion of assets under management, a conservative average return on investment of 4% after costs and charges, and a 25% withholding tax on pooled investments. This would nearly double the aggregate value of old age-related tax subsidies offered in 2013 to R67 billion.

[9] Both the tax credit and deductions can be explicitly calculated from tax returns.

Table 15: Indicative value of a lost revenue due to the interest exemption on retirement assets under management – for 2013

Parameters	2013
Retirement assets under management (R'million)[10]	3 211 017
Return on investment average (%)	4.0%
Value of return on investment	128 441
Assumed withholding tax (%)	25.0%
Annual value of taxes not collected (R'million)	32 110

To evaluate the fairness of both the medical schemes and old age-related subsidies, they can be compared against equivalent benefits/subsidies provided to individuals without adequate incomes or means. In the case of old age support the appropriate comparison is with the SOAP, while for medical schemes and other deductible expenditure the comparison is with per capita public health expenditure.

For the pensions TES selecting the appropriate denominator is however not straightforward. As the subsidies implicitly accrue to people in retirement as a deferred benefit, current contributors are not the natural denominator. However, inter alia due to early withdrawals not all the tax benefits in a given year accrue as deferred benefits. A further complication occurs when using a headcount of current beneficiaries as a proxy indicator of deferred beneficiaries, as this results in a double count (some people receive benefits from more than one fund and/or product). A simple measure based on the population in excess of age 60 not in receipt of a SOAP is therefore used as rough guide to fairness. The results are shown in table 16, which indicate the following: first, the TES for private health coverage, while higher than the per capita public health expenditure in 2005, is lower by 2013. This suggests that the TES for private health care is not distorted in favour of medical scheme beneficiaries, i.e. medical scheme beneficiaries do not receive a larger government subsidy than users of the public health system.

The TES for old age coverage is, however, significantly greater than the SOAP (figure 18 and table 16), and increases in real terms over time – while the SOAP remains roughly constant in value. Were the interest exemption to be included, the per capita value of the subsidy would roughly double. However, as already noted, without including the offsets, no firm conclusion can be reached regarding the fairness of the old age subsidy framework.

[10] Financial Services Board, Annual Report of the

Figure 18: Tax expenditures for old age and health care per beneficiary compared to the public scheme expenditure on old age and public health

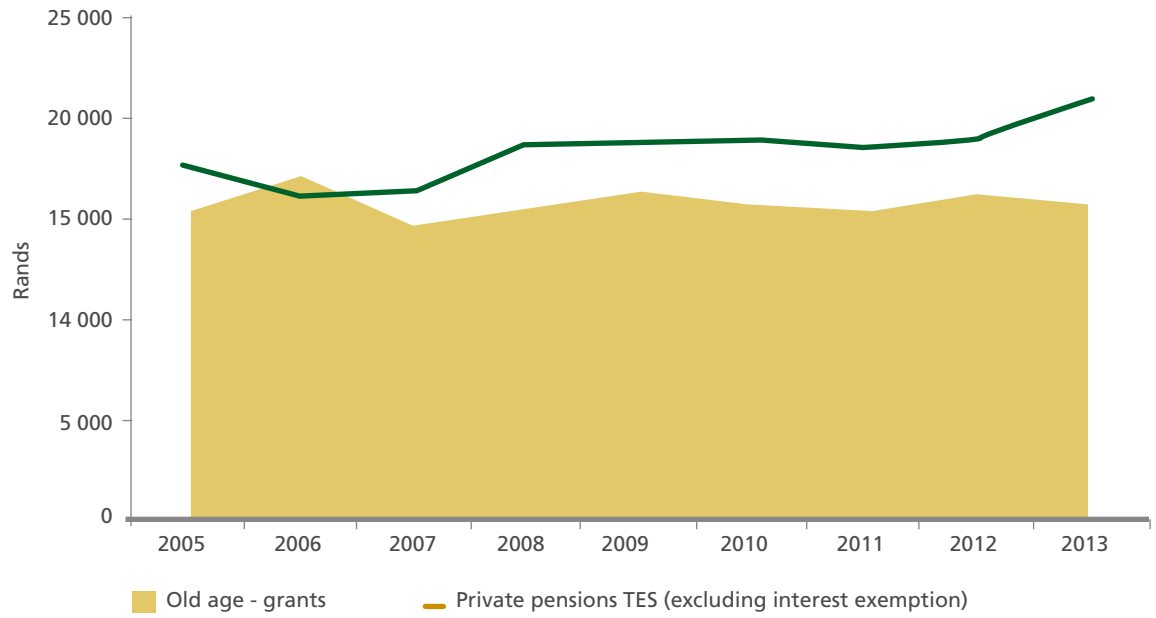


Table 16: Health and pension tax expenditure subsidies 2006 to 2013 (R' million, 2013 prices)

Subsidy	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14
Pension and retirement annuity	**21 743**	**20 155**	**21 329**	**24 632**	**26 127**	**26 574**	**27 227**	**28 596**	**31 872**
· pension contrib. employees	8 052	7 374	7 785	9 155	9 838	9 971	10 198	10 648	11 893
· pension contrib. employers	9 055	8 294	8 756	10 296	11 064	11 214	11 469	11 975	13 375
· retirement annuity	4 637	4 486	4 789	5 181	5 225	5 389	5 560	5 972	6 605
Medical	15 647	13 961	13 934	16 323	17 796	19 308	20 060	23 191	22 089
· medical contrib. & deductions employees	6 018	6 980	7 748	9 071	10 059	19 308	20 060	4 573	4 356
· medical contrib. -employers	9 629	6 980	6 187	7 252	7 736	0	0	0	0
· Medical credits	0	0	0	0	0	0	0	18 618	17 733
Interest exemptions	2 205	2 888	3 199	2 568	2 516	1 642	1 406	1 388	1 304
Secondary rebate (65 years and older)	1 263	1 871	1 948	2 221	1 543	2 297	2 080	2 169	2 881
Tertiary rebate (75 years and older)	0	0	0	0	0	0	174	178	224
Donations	241	94	136	165	167	182	219	254	320
Capital gains tax (annual exclusion)	126	168	205	132	128	146	178	355	414
Total	**41 225**	**39 137**	**40 751**	**46 041**	**48 277**	**50 149**	**51 344**	**56 131**	**59 104**

Table 17: Health and old age tax expenditure subsidies 2006 to 2013 (R' million, 2013 prices)

Subsidy	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14
Old age*	23 006	22 026	23 277	26 853	27 671	28 871	29 481	30 943	34 978
Private health	15 647	13 961	13 934	16 323	17 796	19 308	20 060	23 191	22 089
Total	**38 653**	**35 987**	**37 211**	**43 176**	**45 467**	**48 179**	**49 541**	**54 134**	**57 067**

*Includes pensions and retirement annuities and secondary and tertiary tax rebates.

Table 18: Tax expenditures for old age and healthcare per beneficiary compared to the public scheme expenditure on old age and public health

Subsidy	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14
Private pensions[11]	19 559	18 039	18 275	20 027	21 799	23 646	23 993	24 171	27 294
Private health	2 321	2 000	1 872	2 117	2 239	2 342	2 385	2 694	2 517
Old age - grants	15 463	17 101	14 838	15 574	16 362	15 646	15 570	16 161	15 845
Public health	2 013	1 904	2 217	2 426	2 719	2 832	2 981	3 057	3 052

[11] The denominator used is the total population over the age of 60 less the old age grant recipients.

EXPENDITURE BY CONTINGENCY

Tables 19 - 21 provide a comprehensive breakdown of social security expenditures by contingency, public or private sector, and formal and informal social security.

Based on this breakdown, in 2013 health and old age support made up the largest component of social security expenditure at 7.5% and 4.3% of GDP respectively. Invalidity/disability benefits are estimated to be the next largest component at 1.5% of GDP, with child protection the next most important at 1.3% of GDP.

Benefit components that are not well supported by the social security system, are families (well under 1% of GDP) and maternity protection (at well under 1%). Unemployment protection is also at only 0.2% of GDP in a country with structural unemployment of around 36%.

Table 19: Breakdown of social security expenditure by contingency and formal or informal component of the system – 2001 and 2013

Contingency	2001			2013		
	Formal	Informal	Total	Formal	Informal	Total
	Expenditure (2013 prices)					
Health	131 276	0	131 276	265 408	0	265 408
Illness	218	0	218	312	0	312
Old age	21 400	117 246	138 647	45 525	107 471	152 996
Invalidity/disability	14 960	21 290	36 250	28 088	25 029	53 118
Loss of support	1 284	16 193	17 476	2 706	16 486	19 191
Maternity	540	0	540	983	0	983
Children	9 598	0	9 598	44 057	0	44 057
Foster care/adoption	1 426	0	1 426	6 858	0	6 858
Family protection	1 044	0	1 044	501	0	501
Unemployment	3 531	0	3 531	6 585	0	6 585
TOTAL	**185 277**	**154 729**	**340 006**	**372 151**	**148 986**	**550 009**
	Expenditure (% of GDP)					
Health	6.4	0.0	6.4	7.5	0.0	7.5
Illness	0.0	0.0	0.0	0.0	0.0	0.0
Old age	1.0	5.4	6.4	1.3	3.0	4.3
Invalidity/disability	0.7	1.0	1.7	0.8	0.7	1.5
Loss of support	0.1	0.7	0.8	0.1	0.5	0.5
Maternity	0.0	0.0	0.0	0.0	0.0	0.0
Children	0.4	0.0	0.4	1.2	0.0	1.2
Foster care/adoption	0.1	0.0	0.1	0.2	0.0	0.2
Family protection	0.0	0.0	0.0	0.0	0.0	0.0
Unemployment	0.2	0.0	0.2	0.2	0.0	0.2
TOTAL	**8.9**	**7.1**	**15.9**	**11.3**	**4.2**	**15.4**

*In the case of private (informal) old age, expenditure refers to benefit expenditure.

Table 20: Expenditure by contingency, formal and informal social security and form of contribution – 2001 and 2013

Contingency	Expenditure (2013 prices)					
	2001			2013		
	Formal	Informal	Total	Formal	Informal	Total
Health	**131 277**	**0**	**131 277**	**265 408**	**0**	**265 408**
· Non-contributory	56 520	0	56 520	133 293	0	133 293
· Contributory public	1 789	0	1 789	2 326	0	2 326
· Contributory private	72 968	0	72 968	129 789	0	129 789
Illness	**206**	**0**	**206**	**312**	**0**	**312**
· Non-contributory	0	0	0	0	0	0
· Contributory public	206	0	206	312	0	312
· Contributory private	0	0	0	0	0	0
Old age	**20 252**	**110 954**	**131 206**	**45 525**	**107 471**	**152 996**
· Non-contributory	20 252	0	20 252	45 525	0	45 525
· Contributory public	0	0	0	0	0	0
· Contributory private	0	110 954	110 954	0	107 471	107 471
Invalidity/disability	**14 157**	**20 148**	**34 305**	**28 088**	**25 029**	**53 117**
· Non-contributory	12 200	0	12 200	22 067	0	22 067
· Contributory public	1 957	0	1 957	6 021	0	6 021
· Contributory private	0	20 148	20 148	0	25 029	25 029
Loss of support	**1 215**	**15 324**	**16 539**	**2 706**	**16 486**	**19 192**
· Non-contributory	0	0	0	0	0	0
· Contributory public	1 215	0	1 215	2 706	0	2 706
· Contributory private	0	15 324	15 324	0	16 486	16 486
Maternity	**511**	**0**	**511**	**983**	**0**	**983**
· Non-contributory	0	0	0	0	0	0
· Contributory public	511	0	511	983	0	983
· Contributory private	0	0	0	0	0	0
Children	**9 083**	**0**	**9 083**	**44 057**	**0**	**44 057**
· Non-contributory	9 083	0	9 083	44 057	0	44 057
· Contributory public	0	0	0	0	0	0
· Contributory private	0	0	0	0	0	0
Foster care/Adoption	**1 350**	**0**	**1 350**	**6 858**	**0**	**6 858**
· Non-contributory	1 349	0	1 349	6 858	0	6 858
· Contributory public	1	0	1	1	0	1
· Contributory private	0	0	0	0	0	0
Family protection	**988**	**0**	**988**	**501**	**0**	**501**
· Non-contributory	755	0	755	382	0	382
· Contributory public	233	0	233	118	0	118
· Contributory private	0	0	0	0	0	0
Unemployment	**3 341**	**0**	**3 341**	**6 585**	**0**	**6 585**
· Non-contributory	0	0	0	0	0	0
· Contributory public	3 341	0	3 341	6 585	0	6 585
· Contributory private	0	0	0	0	0	0
TOTAL	**182 378**	**146 425**	**328 803**	**401 024**	**148 986**	**550 010**
· Non-contributory	100 158	0	100 158	252 183	0	252 183
· Contributory public	9 252	0	9 252	19 052	0	19 052
· Contributory private	72 968	146 425	219 393	129 789	148 986	278 775

Table 21: Expenditure by contingency, formal and informal social security and form of contribution – 2001 and 2013 (% of GDP)

Contingency	Expenditure (% of GDP)					
	2001			2013		
	Formal	Informal	Total	Formal	Informal	Total
Health	**6.3**	**0.0**	**6.3**	**7.6**	**0.0**	**7.6**
· Non-contributory	2.7	0.0	2.7	3.8	0.0	3.8
· Contributory public	0.1	0.0	0.1	0.1	0.0	0.1
· Contributory private	3.5	0.0	3.5	3.7	0.0	3.7
Illness	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
· Non-contributory	0.0	0.0	0.0	0.0	0.0	0.0
· Contributory public	0.0	0.0	0.0	0.0	0.0	0.0
· Contributory private	0.0	0.0	0.0	0.0	0.0	0.0
Old age	**1.0**	**5.4**	**6.4**	**1.3**	**3.0**	**4.3**
· Non-contributory	1.0	0.0	1.0	1.3	0.0	1.3
· Contributory public	0.0	0.0	0.0	0.0	0.0	0.0
· Contributory private	0.0	5.4	5.4	0.0	3.0	3.0
Invalidity/disability	**0.7**	**1.0**	**1.7**	**0.8**	**0.7**	**1.5**
· Non-contributory	0.6	0.0	0.6	0.6	0.0	0.6
· Contributory public	0.1	0.0	0.1	0.2	0.0	0.2
· Contributory private	0.0	1.0	1.0	0.0	0.7	0.7
Loss of support	**0.1**	**0.7**	**0.8**	**0.1**	**0.5**	**0.6**
· Non-contributory	0.0	0.0	0.0	0.0	0.0	0.0
· Contributory public	0.1	0.0	0.1	0.1	0.0	0.1
· Contributory private	0.0	0.7	0.7	0.0	0.5	0.5
Maternity	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
· Non-contributory	0.0	0.0	0.0	0.0	0.0	0.0
· Contributory public	0.0	0.0	0.0	0.0	0.0	0.0
· Contributory private	0.0	0.0	0.0	0.0	0.0	0.0
Children	**0.4**	**0.0**	**0.4**	**1.2**	**0.0**	**1.2**
· Non-contributory	0.4	0.0	0.4	1.2	0.0	1.2
· Contributory public	0.0	0.0	0.0	0.0	0.0	0.0
· Contributory private	0.0	0.0	0.0	0.0	0.0	0.0
Foster care/Adoption	**0.1**	**0.0**	**0.1**	**0.2**	**0.0**	**0.2**
· Non-contributory	0.1	0.0	0.1	0.2	0.0	0.2
· Contributory public	0.0	0.0	0.0	0.0	0.0	0.0
· Contributory private	0.0	0.0	0.0	0.0	0.0	0.0
Family protection	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
· Non-contributory	0.0	0.0	0.0	0.0	0.0	0.0
· Contributory public	0.0	0.0	0.0	0.0	0.0	0.0
· Contributory private	0.0	0.0	0.0	0.0	0.0	0.0
Unemployment	**0.2**	**0.0**	**0.2**	**0.2**	**0.0**	**0.2**
· Non-contributory	0.0	0.0	0.0	0.0	0.0	0.0
· Contributory public	0.2	0.0	0.2	0.2	0.0	0.2
· Contributory private	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	**8.8**	**7.1**	**15.9**	**11.3**	**4.2**	**15.5**
· Non-contributory	4.9	0.0	4.9	7.1	0.0	7.1
· Contributory public	0.4	0.0	0.4	0.5	0.0	0.5
· Contributory private	3.5	7.1	10.6	3.7	4.2	7.9

QUALITY OF SOCIAL PROTECTION

South Africa's social security system, although substantial in financial terms, exhibits a number of important weaknesses with implications for the ongoing development of the country.

- First, the system is highly fragmented, both institutionally and in terms of the efficiency of pooling. As a consequence, the ability to set policy strategically is diminished, and the pace of progressive change constrained.
- Second, the scale of the system covered by informal social security, while reflecting the level of social demand for protection, leaves many with inadequate levels of protection. Weaknesses can be found in: the private pensions system, which, despite rich contributions, fails to provide complete protection for retirement, disability and loss of support.
- Third, government policy is not always consistent across all schemes, with no adequate relationship existing between social assistance schemes, the protection to be derived from contributory schemes and tax expenditure subsidies. Importantly, the subsidies allocated via social transfers or in-kind in many cases bear no relationship to tax thresholds or tax expenditure subsidies.
- Fourth, many key societal risks are not adequately covered. These include: groups excluded from subsidised health care; unemployment not protected by unemployment insurance; pregnant women; and mothers without adequate incomes supporting children.
- Fifth, the system of means tests lacks any policy framework establishing how the relevant values have been determined, and how progressive realisation is to be achieved over time.

The above consequently represent some of the key challenges that South Africa faces in responding to social security reform over the medium- to long-term. These will need to be taken into account when considering comprehensive social security reform in processes envisaged to begin in 2016.

ADDITIONAL TABLES

These are additional tables of data not provided in the text, or not provided in their complete form, which may be of general interest. Brief information on the data sources are provided below each table. For a more complete overview of the methodology for the various datasets see annexure A.

Table 22: Social security benefit expenditure expressed as a percentage of GDP from 2001 to 2013 (includes administration expenditure)

Scheme	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Non-contributory	4.7	4.7	5.4	5.7	6.0	6.3	5.5	5.9	6.7	6.9	6.8	7.1	7.2
Contributory - private	14.7	12.6	12.2	12.4	11.5	11.2	11.1	11.9	12.1	12.0	11.1	11.5	11.8
Contributory - public	0.6	0.6	0.6	0.6	0.7	0.8	0.9	0.9	1.0	1.0	0.9	0.9	1.0
Overall total	**20.0**	**17.9**	**18.2**	**18.7**	**18.2**	**18.3**	**17.5**	**18.7**	**19.8**	**19.9**	**18.8**	**19.5**	**20.0**

Public contributory social security expenditure composition: CCOD annual reports, CF annual reports, RAF annual reports and UIF annual reports. Private contributory social security expenditure: Pension FSB annual reports and Medical schemes CMS annual reports. Non-contributory social security expenditure: SASSA SocPen database and Government Health schemes StatsSA/ National Treasury Budget Review.

Table 23: Social security benefit expenditure expressed as a percentage of GDP from 2001 to 2013 (excludes administration expenditure)

Scheme	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Non-contributory	4.6	4.7	5.3	5.6	5.6	5.9	5.5	5.9	6.6	6.5	6.5	6.8	4.2
Contributory - private	13.5	11.5	11.1	11.2	10.5	10.2	10.3	11.1	11.2	11.1	10.2	10.6	10.9
Contributory - public	0.6	0.6	0.6	0.5	0.6	0.6	0.7	0.7	0.8	0.7	0.7	0.7	0.8
Overall total	**18.7**	**16.8**	**17.0**	**17.3**	**16.7**	**16.7**	**16.5**	**17.7**	**18.6**	**18.3**	**17.4**	**18.1**	**15.9**

Public contributory social security expenditure composition: CCOD annual reports, CF annual reports, RAF annual reports and UIF annual reports. Private contributory social security expenditure: Pension FSB annual reports and Medical schemes CMS annual reports. Non-contributory social security expenditure: SASSA SocPen database and Government Health schemes StatsSA/ National Treasury Budget Review.

Table 24: Social security benefit expenditure 2001 to 2013 (includes administration expenditure)

Scheme	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Non-contributory	4.7	4.7	5.4	5.7	6.0	6.3	5.5	5.9	6.7	6.9	6.8	7.1	7.2
Contributory	15.4	13.3	12.8	12.9	12.2	12.0	12.0	12.8	13.1	12.9	12.0	12.4	12.8
Total	**20.1**	**18.0**	**18.2**	**18.6**	**18.2**	**18.3**	**17.5**	**18.7**	**19.8**	**19.8**	**18.8**	**19.5**	**20.0**

Contributory: Public contributory social security expenditure and Private contributory social security expenditure. Non-contributory social security expenditure: SASSA SocPen database and Government Health schemes StatsSA/ National Treasury Budget Review.

Table 25: Social security benefit expenditure from 2004 to 2013 (2013 prices) (including administration expenditure)

Scheme	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Non-contributory	141 345	159 080	180 542	167 687	183 776	206 448	222 182	231 215	245 594	253 378
Contributory - private	182 581	188 016	205 801	235 031	282 176	303 724	328 768	336 290	375 722	417 617
Contributory - public	13 834	20 041	23 538	26 392	27 406	29 608	31 326	30 382	30 350	33 811
Total	**337 760**	**367 137**	**409 881**	**429 110**	**493 358**	**539 780**	**582 276**	**597 887**	**651 666**	**704 806**

Public contributory social security expenditure composition: CCOD annual reports, CF annual reports, RAF annual reports and UIF annual reports. Non-contributory social security expenditure composition: SASSA SocPen database and Government Health schemes StatsSA/ National Treasury Budget Review. Medical Schemes expenditure composition: outpatient services, ambulance services, hospital services, medical products, public health and other benefit (ex-gratia payments) expenditures CMS annual reports.

Table 26: Social security benefit expenditure from 2004 to 2013 (2013 prices) (excluding administration expenditure)

Scheme	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Non-contributory	138 349	150 507	169 819	169 261	183 374	202 827	208 257	219 672	233 025	148 920
Contributory - private	165 810	172 310	188 416	216 397	262 198	280 762	304 572	309 071	345 006	383 736
Contributory - public	12 903	14 813	17 455	20 450	21 422	23 622	24 127	23 716	23 395	29 058
Total	**317 062**	**337 630**	**375 690**	**406 108**	**466 994**	**507 211**	**536 956**	**552 459**	**601 426**	**561 714**

Public contributory social security expenditure composition: CCOD annual reports, CF annual reports, RAF annual reports and UIF annual reports. Non-contributory social security expenditure composition: SASSA SocPen database and Government Health schemes StatsSA/ National Treasury Budget Review. Medical Schemes expenditure composition: outpatient services, ambulance services, hospital services, medical products, public health and other benefit (ex-gratia payments) expenditures CMS annual reports.

Table 27: Formal and informal social protection benefit expenditure expressed as a percentage of GDP (including administration expenditure)

Scheme	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Formal SS	8.9	8.6	9.3	9.4	9.9	10.3	9.4	9.9	11.1	11.3	10.9	11.2	11.4
Formal SS (excl. MS)	5.4	5.3	6.0	6.2	6.7	7.1	6.3	6.8	7.7	7.9	7.7	8.0	8.1
Informal SS	11.1	9.3	8.9	9.2	8.3	8.0	8.1	8.8	8.7	8.5	8.0	8.3	8.6

Formal social protection expenditure composition: SASSA SocPen database, Government health schemes StatsSA/National Treasury Budget Review, CCOD annual reports, CF annual reports, RAF annual reports, UIF annual reports and Medical Schemes CMS annual reports. Informal social protection expenditure composition: privately administered funds FSB annual reports, underwritten funds FSB annual reports and GEPF FSB annual reports.

Table 28: Formal and informal social protection benefit expenditure expressed as a percentage of GDP (excluding administration expenditure)

Scheme	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Formal SS	8.4	8.4	8.8	8.9	9.0	9.3	8.9	9.4	10.4	10.3	10.0	10.3	7.9
Formal SS (excl. MS)	5.2	5.4	5.9	6.1	6.2	6.5	6.2	6.6	7.4	7.2	7.2	7.4	5.0
Informal SS	10.3	8.5	8.1	8.5	7.7	7.5	7.6	8.3	8.2	8.0	7.5	7.7	8.0

Formal social protection expenditure composition: SASSA SocPen database, Government health schemes StatsSA/National Treasury Budget Review, CCOD annual reports, CF annual reports, RAF annual reports, UIF annual reports and Medical Schemes CMS annual reports. Informal social protection expenditure composition: privately administered funds FSB annual reports, underwritten funds FSB annual reports and GEPF FSB annual reports.

Table 29: Social security benefit expenditure in South Africa (R'million, 2013 prices) (estimates for 2001 and 2013)

Type of scheme	2001		2013	
	R'million	% of GDP	R'million	% of GDP
Contributory - public	11 170	0.6	24 439	0.7
Contributory - private	212 235	9.4	282 820	8.0
In-kind Services (health)	46 304	2.4	104 850	3.0
Social assistance	43 679	2.0	121 110	3.4

Mandatory social security expenditure composition: CCOD annual reports, CF annual reports, RAF annual reports and UIF annual reports. Voluntary social security expenditure: Pension FSB annual reports and Medical Schemes CMS annual reports. In-kind services expenditure composition: Government Health schemes National Treasury Budget Review. Social grants expenditure composition: SASSA SocPen database.

Table 30: Health expenditure including administration. with medical scheme contribution expenditure, as a percentage of GDP from 2001 to 2013

Scheme	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Medical schemes	3.5	3.6	3.7	3.5	3.3	3.1	3.1	3.1	3.4	3.5	3.5	3.6	3.7
Public health	2.7	2.8	2.9	2.9	3.0	2.7	2.8	3.1	3.6	3.7	3.7	3.8	3.8
Total*	**6.2**	**6.4**	**6.6**	**6.4**	**6.3**	**5.8**	**5.9**	**6.2**	**7.0**	**7.2**	**7.2**	**7.4**	**7.5**

Medical Schemes expenditure composition: outpatient services, ambulance services, hospital services, medical products, public health and other benefit (ex-gratia payments) expenditures CMS annual reports. Public health (Budget Review): Government Health schemes National Treasury Budget Review. Public health: outpatient services, ambulance services, hospital services, public health StatsSA/National Treasury Budget Review.

Table 31: Contributors and beneficiaries of privately administered and underwritten pension funds (estimates for 2005 and 2012, millions, headcount)

Type of scheme	2005	2012
Privately Administered Funds Contributors	3 232 558	5 490 081
Privately Administered Funds Beneficiaries	355 772	428 827
Underwritten Funds Contributors	3 650 645	3 544 119
Underwritten Funds beneficiaries	308 254	80 881

Privately administered funds and Underwritten funds: FSB annual reports.

Table 32: Members of privately and underwritten pension funds with unclaimed benefits (millions, headcount)

Scheme	2005	2006	2007	2008	2009	2010	2011	2012
Unclaimed Benefits – Publicly Administered Funds	745 370	1 058 430	983 992	594 513	1 126 969	1 397 021	2 633 815	2 940 384
Unclaimed Benefits - Underwritten Funds	933	1 955	452	452	436	404	733	691

Unclaimed benefits: FSB annual reports.

Table 33: Social assistance expenditure expressed as a percentage of GDP from 2000 to 2013

Scheme	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Old Age Grant	1.0	1.0	1.1	1.3	1.3	1.2	1.2	1.1	1.1	1.3	1.3	1.3	1.3
Disability Grant	0.6	0.6	0.6	0.8	0.9	0.9	0.8	0.8	0.8	0.7	0.7	0.6	0.6
Foster Care Grant	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Child Support Grant	0.4	0.4	0.5	0.6	0.7	0.9	1.0	0.9	0.9	1.1	1.2	1.2	1.2
Other	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total	**2.1**	**2.3**	**2.7**	**3.1**	**3.1**	**3.4**	**2.9**	**3.1**	**3.5**	**3.3**	**3.3**	**3.4**	**3.4**

Old age grant, total disability grant, foster care grant, child support grant and other (grant-in-aid, war veteran grant and care dependency grant): SASSA SocPen database.

Table 34: Private Pension funds contribution expenditure as a percentage of GDP from 2000 to 2013

Scheme	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Privately admin	2.2	2.1	1.8	1.9	2.0	2.1	2.3	2.3	2.3	2.4	2.5	2.5	2.6
Underwritten	1.7	2.1	1.8	1.6	1.6	1.2	0.9	0.8	0.8	0.8	0.8	0.8	0.9
GEPF	1.4	1.4	1.3	1.3	1.2	1.2	1.1	1.1	1.1	1.2	1.3	1.3	1.4
Transnet	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total	**5.4**	**5.8**	**5.0**	**4.9**	**4.9**	**4.6**	**4.4**	**4.3**	**4.3**	**4.5**	**4.7**	**4.7**	**5.0**

Privately Administered Funds, Underwritten Funds, Transnet and GEPF: FSB annual reports.

Table 35: Private pension fund administration costs as a percentage of GDP from 2001 to 2013

Scheme	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Admin Expenditure	0.5	0.5	0.4	0.4	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2

Administration expenditure: FSB annual report.

ANNEXURE A - METHODOLOGY

Introduction

The purpose of this note is to provide a summary manual that outlines the approach taken in compiling the Social Expenditure Bulletin estimates. The note focuses primarily on describing the data sources used and how they were put together. The Social Accounting System is essentially, a set of excel spread sheets that were developed as a tool for inputting data from different sources and carrying out the calculations necessary to produce the final Social Expenditure Bulletin estimates.

The data sources used in this publication follow from the social accounting sheets with the exception of some of the data which are outlined in this note. The tax expenditure data in this publication was sourced from National Treasury Tax policy unit and not from the tax expenditure estimates in the social accounting sheets in order for the data to be consistent with official data sources. All social security expenditure data in the social accounting system, with the exception of Council for Medical Schemes data and South African Reserve Bank (SARB) Insurance and Pension data, is scaled to SARB national accounts data. The reasoning for this is given in the methodology below.

For this publication the scaling factors have been removed in order to keep the data consistent with their primary sources. The public health data was sourced from National Treasury Budget Review since the public health data in the social accounting system is scaled to fit the SARB national accounts data. The Unemployment Insurance Fund (UIF), Road Accident Fund (RAF), CCOD, Compensation Fund and SASSA expenditure data were taken from the social accounting sheets and unscaled to SARB national accounts estimates. SOCPEN data was also taken from the social accounting sheets and unscaled to SARB national accounts estimates. Private pension and official pension data were sourced directly from Financial Services Board annual reports. GDP and CPI data were sourced from the South African Reserve Bank and the Statistics South Africa databases.

Data sources used in the social accounting sheets and how they are put together

This section explains the data sources used in the Social Accounting Sheets and how they are put together. It begins by considering the different types of data sources used, their strengths and weaknesses, and then describes how they are used.

Data source

The Social Accounting Sheets draw on three fundamentally different kinds of data sources - official statistical series, administrative data, and demographic projections. The official statistical series used include the following:

From the South African Reserve Bank

- National Accounts
- Insurance and Pension Fund Statistics
- Government Finance Statistics

From Statistics South Africa

- GDP, CPI
- Labour Force Statistics
- Government Finance Statistics (GFS)
- Supply and Use Tables

Features of these datasets that are particularly important for compiling the Social Budget

- They are compiled according to international standards and classification systems; and
- They are designed to be published as consistent time series, i.e. the statisticians producing them see their main responsibility as presenting long consistent time series and are regularly revising past estimates to maintain consistency.

While all these series aim for consistency[12] we can expect more attention to it in the Reserve Bank Statistics, GDP, and the CPI, which are always published as lengthy time series and are available for download[13], than in the Labour Force, GFS, and Supply and use tables which are normally published for one or two years at a time with much of the commentary on the relationships within the year rather than the changes.

Administrative data is mostly contained within annual reports including:

- The South African Revenue Service Tax Statistics;
- The Road Accident Fund;
- Unemployment Insurance Fund;
- Compensation Fund;
- Compensation Commission for Occupational Diseases;
- Council for Medical Schemes;
- Registrar of Pension funds (Financial Services Board);
- Registrar of long term Insurance; and
- Registrar of short term insurance annual reports.

These reports attempt to present the best possible snapshot of the industry they are reporting on at a point in time, and serve many purposes other than providing data series. They are not always published regularly, they rarely employ sampling so their estimates can reflect changes in response rates, and both the formats in which the data is presented and the procedures used to generate it can vary from year to year.

There are also two other sources of administrative data used, the estimates provided to the National Treasury by the Road Accident Fund, Unemployment Insurance Fund, Compensation Fund, Compensation Commission for Occupational Diseases, and SASSA, and the estimates prepared by the DSD from monthly SOCPEN reports. Although neither of these are designed primarily as sources of published statistics they do have the merit that we know that the data have already been examined in a series.

Finally there are the demographic estimates provided by ASSA. Although these are projections only, they are certainly consistent over time.

[12] Where estimates are produced with less than total coverage for example, they maintain sampling frames and use sampling, grossing up, and estimating procedures to ensure that the reported changes are not biased by changes in response rates. These procedures are designed to ensure the accurate measurement of changes rather than levels.

[13] www.resbank.co.za

Table A1: Data Availability for Social Accounting Sheets Sources

Data Source	Availability of Data		Name of sheet[14]
	Financial	Cash/Accrual	
SARB National Accounts	All Years CY	Accrual	SARB National Accounts Data
SARB Insurance and Pension Fund Statistics	All Years CY and FY	Accrual	SARB Ins & Pen Funds
SARB Government Finance Statistics	All Years CY and FY	Cash	SARB Government
GDP, CPI	All Years CY		
Labour Force Statistics			
Stats SA Government Finance Statistics	99/00-08/9 FY	Cash	Stats SA Functional Expenditure
Supply and Use Tables	02-09 CY	Accrual	STATSSA SUT
SARS Tax Statistics	03/04-09/10 TY	Cash	SARS data
SOCPEN	99/00-10/11 FY	Accrual	SocPen- DSD
Demographic Projections		N/A	ASSA
National Treasury			
The Road Accident Fund	05/06-10/11 FY (totals from 02/03)	Cash	Treasury PE Sheets
Unemployment Insurance Fund	06/07-10/11 FY (totals from 04/05)	Cash	Treasury PE Sheets
Compensation Fund	06/07-10/11 FY (totals from 04/05)	Cash	Treasury PE Sheets
CCOD	05/06-10/11 FY	Cash	Treasury PE Sheets
SASSA	06/07-10/11 FY	Cash	Treasury PE Sheets
Annual Reports			
The Road Accident Fund	03/04-09/10 FY, 03/04-09/10 FY	Accrual	Websites for CCOD-UIF
Unemployment Insurance Fund	99/00-09/10 FY, 00/01-09/10 FY	Accrual	Websites for CCOD-UIF
Compensation Fund	01/02-10/11 FY, 06/07-08/09 FY	Accrual	Websites for CCOD-UIF
Council for Medical Schemes	2002-2009 CY	Accrual	CMS Annual Reports
Registrar of Pension funds	00/01-07/08 FY*, 00/01-07/08 FY*	Accrual	FSB data
Registrar of long term Insurance	99/00-08/09 FY**, 07/08-08/09 FY	Accrual	FSB data
Registrar of short term insurance	99/00-08/09 FY***	Accrual	FSB data

CY = Calendar Year, FY = Fiscal Year, TY = Tax Year ,*Significant breaks in series and changes in detail over the period ** Benefits breakdown for last three years only, *** Benefits breakdown for last year only,**** People, Payments, policies

The table above shows availability of data from each different source. Only the SARB data, Stats SA's GDP, CPI, and Labour Force data and the demographic projections are available in calendar years for the whole period. However these sources provide neither a detailed breakdown of the social benefits provided nor any information on numbers of people, policies, or transactions. The annual reports, which do provide this information[1], are not available for the period as a whole and there is no guarantee that the methodologies used are consistent with one another or over time. Indeed there are certain cases where we are sure that they are not. The Registrar of

[14] though the classifications used for the transactions and headcount data differ from that used for the financial estimates in some reports

Pensions reports for instance explicitly indicate that their estimates are produced by adding up the returns provided by the companies that respond with no estimates for non-response. Meanwhile the lists of respondents indicate that response has increased substantially over the years so that the substantial increase in totals over the years represents increases in the response rate rather than growth in the industry.

Integrating data from different sources

The procedures for integrating the different sources follow the following assumptions:

- The SARB series provide the best available measure of changes in aggregates over time; and
- The SARB National Accounts estimates are consistent between different sectors and, with two exceptions, provide the best estimates of aggregate levels of receipts and expenditures.

Although there are some differences between the National Accounts, GFS and insurance and pension statistics in theory these are, with one important exception, negligible in practise. For instance, the calendar year estimates for social benefits paid by financial corporations in the National Accounts exactly match the payments by private and official pension funds in the Insurance and Pension Fund Statistics and the Social Benefits paid by General Government in the National Accounts exactly match those paid by Consolidated General Government in the government Finance Statistics in some years and almost exactly match them in other years. The significant exception to this rule is the insurance industry. The System of National Accounts specifies a series of adjustments to insurance data designed to separate the services provided by insurance companies from the investment earnings attributable to their investors. These adjustments entail the use of complex models that are difficult to unpick[15].

For private pension statistics, the estimates for private self-administered pension funds produced by the Registrar of Pensions are substantially larger than those produced by the Reserve Bank. The chief reason for this difference appears to be that the Registrar of Pensions surveys all privately administered funds while the Reserve bank omits retirement annuity funds on the grounds that these are investment vehicles and cannot be classified as social insurance. As explained above the Registrar of Pension Funds annual reports for earlier years also appear to omit many funds who failed to respond to their survey so the only reliable estimate for the total level of benefits paid by Private Pension funds appears to be the FSB's 2008 estimate. Comparisons with SARB estimates for the same figure show that the FSB figure is approximately 2.3 times higher. For both Private and Official Pensions, we therefore use SARB data which we do not attempt to adjust to fit the National Accounts.

Procedures for the expenditure side

The estimates of social expenditure in the SEB were obtained ensuring that they are in line with SARB National Accounts Data. This is explained below for each schemes/institution. Although the next section contains a more detailed explanation of how our final Social Expenditure Bulletin estimates were obtained, in short, the procedures applied in order to get the different estimates for social expenditure were as follows.

Private pension funds

SARB Insurance & Pension fund estimates were used (which match SARB National Accounts Data for Social Benefits). Annuities are treated as old age benefits, lump sums on retirement/death are treated as old age benefits and other lump sums split between Unemployment (Resignation) and Other using proportions from the nearest available year in the pensions registrar's data (FSB data).

Official pension funds

SARB Insurance & Pension estimates used (which match SARB National Accounts Data for Social Benefits). Annuities are treated as old age benefits, lump sums on retirement/death are treated as old age benefits and other lump sums split between Unemployment (Resignation) and Other using proportions from the nearest available year in the pensions registrar's data (FSB data).

[15] However, Long Term Insurance Funds are beyond the scope of this Social Budgeting exercise.

SASSA

Data from SOCPEN for each year was first multiplied through by a scaling factor (varying from 0.92 to 1.06 so that the total matched Government Finance Statistics Financial year data for Social Benefits other than those paid by Social Security Funds, then adjusted to calendar years by simple weighted averaging, then multiplied through by another adjustment factor (varying from 0.94 to 1.08 to give an exact fit with the SARB calendar year Insurance and Pension Fund and GFS data, and finally multiplied by a very small factor (between 0.993 and 1.001) to fit the National Accounts data.

UIF,RAF,CCOD, Compensation Fund

Data from the National Treasury[16] was used and the procedure described for the SASSA funds benefits applied. However the GFS data used was for Social Benefits Paid by social security funds and, National Treasury data was not available for some years. Estimates for these years were made by applying the change in the GFS total for Social Benefits. The Adjustment factors for going from National Treasury Figures to SARB GFS figures in earlier years where as low as 0.74 though later years data was much more consistent. Finally, the figures are scaled to fit SARB National Accounts estimates.

Medical Schemes

Council for Medical Scheme data was used without adjustment where it was available and was estimated by applying the change in the SARB's estimate for total household consumption of medical services (which includes consumption through medical schemes) where it was not available.[17]

Government Health Benefits

The basic source for government health benefits is the Individual Health expenditure reported in the Stats SA Government Finance Statistics. This is available in its current format as far back as 2004/5. Prior to that only more aggregated series are available. Changes in these more aggregated series were applied to the estimates for 2004/5 to get detailed estimates for earlier years. Next the series for 99/00 to 2008/9 was adjusted to calendar years by simple weighted averaging. However when this procedure was applied to total Individual consumption expenditure however the results were significantly higher than the total individual consumption expenditure of government in the SARB National accounts. Furthermore the SARB National Accounts data seem more consistent with the Stats SA supply and use tables. Because of this an annual scaling factor varying from 0.7 to 0.84 was applied to the Stats SA GFS data for health and education (to make them fit SARB National Accounts Data). Estimates for 2010 were derived by applying the change in total individual consumption expenditure.

The Bulletin also contains estimates for individual health services provided by Non-Government, Non-Medical Scheme Individual Health Benefits. Estimates for Total Household Consumption of Health Services are available from the SARB National Accounts. The estimate for total household health expenditure (SARB National Accounts Data) includes medical scheme expenditure and also appears to include the consumption treated as industry or intermediate consumption in the Stats SA Supply and Use Tables. Estimates for out of pocket health expenditure by households and services provided by employers or NGOs were derived by subtracting expenditure by medical schemes and dividing the balance between household and "other" using the ratios from the nearest Stats SA supply and use table.

[16] Combined with annual reports from websites in the case of the RAF

[17] Although the CMS data was not scaled to fit SARB National Accounts Data, the final figures for total individual health expenditure was taken from the SARB insurance and pension fund data which is in line with the SARB National Accounts data. The balance between this figure for total individual health expenditure, other health benefits such as those provided directly by the employer and the CMS benefit expenditure gives an approximation of out of pocket health expenditure.

Procedures for the revenue side

Private & Official Pension Funds

Data on the revenues of private and official pension funds was drawn from SARB Insurance and Pension Funds data receipts.[18] No adjustments were done to this data.

UIF,RAF,CCOD, Compensation Fund and SASSA

All the revenue data for these institutions was taken straight from the SARB (GFS) Government series[19].

Medical Schemes

Data on medical schemes' revenue is drawn from two different sources. Employer contributions (social contributions) are estimated from SARS data on fringe benefits[20] (i.e medical aid paid on behalf of employees).[21] Data on employee contributions is drawn from the CMS annual reports.

Government Health benefits

Estimates for revenue are obtained by assuming that the revenues are equal to government expenditure on individual education and health services.

18 ie. the CALC- SARB Ins & Pen Funds sheet.
19 more specifically, Table 7 of the CALC- SARB Government sheet
20 This data is in the SARS Tax Reports.
21 in the CALC- SARS sheet
22 These are taken from the SARS Tax Reports.
23 In other words, we assume that the revenues are equal to the expenditures.

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