



SOCIAL BUDGET BULLETIN ISSUE 2

2021



social development

Department:
Social Development
REPUBLIC OF SOUTH AFRICA

ACKNOWLEDGEMENT

This Social Budget Bulletin Issue 2 is a product of the partnership agreement between the Department of Social Development and the University of the Witwatersrand, School of Governance. Special thanks to Professor Alex Van Den Heever and Mr Loyiso Maciko for leading the reconstruction of the social budget model and related tables, and provision of technical and analytical support in the development of this Issue. This work involved the collation and organisation of social budget data from multiple government departments, social security agencies and regulators. The Department appreciates the cooperation received from all these data providers and stakeholders.

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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, pension schemes for government and public entities 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.

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.

Gini coefficient: This measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A Gini coefficient of 0 therefore represents perfect equality, while a coefficient of 1 implies perfect inequality.

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 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, which includes official and other parastatal pension 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. These include social assistance and in-kind benefits such as free public health services.

Social assistance: Non-contributory income transfers.

Social transfers: Government transfers directly to families such as social grants.

Tax expenditure subsidies: Are income transfers provided by government using the tax system. These include tax rebates and tax credits.

Tax credits: Are tax expenditure subsidies denominated as specified financial values.


Tax rebates: Are tax expenditure subsidies typically specified as a proportion of taxable income where they tax payable can be returned to the tax payer.

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
FSCA	Financial Sector Conduct Authority
FSB	Financial Services Board
GDP	Gross Domestic Product
GEPF	Government Employees Pension 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
SASSA	South Africa Social Security Agency
OPG	Older Persons Grant
STATS SA	Statistics South Africa
TB	Tuberculosis
TES	Tax Expenditure Subsidies
UIF	Unemployment Insurance Fund



FOREWORD BY THE MINISTER OF SOCIAL DEVELOPMENT

Through their response to the pandemic, many countries have demonstrated the important role that robust and comprehensive social security systems can play in protecting the most vulnerable against economic and social development challenges of the times. Throughout the world, many countries are using social security interventions to address increasing unemployment rates, weak economic growth, and health systems capacity gaps to mitigate the risks associated with a crisis of this magnitude.

In South Africa, the pandemic has brought into sharp focus the important role of social protection measures such as the Unemployment Insurance Fund (UIF) and social assistance programmes to respond effectively within a very short space of time. However, the pandemic has also exposed serious gaps in coverage especially for informal workers who were the hardest hit by massive losses of income and livelihoods. This has given rise to renewed calls for implementation of a shock-responsive social protection system, including the introduction of the Basic Income Grant (BIG).

This publication serves as an important tool to review the access, coverage, scope and the performance of existing social security system, narrow the information gaps and identify areas for reform in order to support a better managed and more equitable national social protection system in South Africa during and beyond the pandemic.

It gives me great pleasure to introduce this important and timely publication, which follows the success of the inaugural issue published in 2017 in collaboration with Witwatersrand University. The outbreak of the global COVID-19 pandemic has imposed unprecedented socio-economic challenges that have underscored the need and the urgency for South Africa to move towards the adoption and implementation of the inclusive and responsive social protection system envisaged in the National Development Plan (Vision 2030).

To this end, the Social Budget Bulletin Issue 2 focuses on the review of the policy context and deep-dive analysis to highlight successes and possible failures of policy choices as Government continues to look for measures to protect the poor and the most vulnerable.



For the period under review, non-contributory expenditure on social assistance remained at roughly 3.4% of GDP (up from 2.1% in 2000). However, there is no social assistance coverage for unemployed adults from the ages of 18-59, and the financial values of benefits provided to qualifying beneficiaries are insufficient, particularly for the Child Support Grant which is below the Food Poverty Line (R585). Social insurance makes up the contributory part of social security, and is comprised of the Unemployment Insurance Fund (UIF), Road Accident Fund (RAF), Compensation Fund for occupational injuries and diseases (CF), and the Compensation Commission for Occupational Diseases (CCOD).

From 2000-2018, social insurance grew from 1.2% to 1.6% of South Africa's Gross Domestic Product (GDP). This suggests that South Africa's systems of social insurance remain largely undeveloped, with low levels of coverage and low compliance, which has significantly limited their ability to make a significant impact on the economic performance of the country. For example, South Africa's levels of unemployment prior to the COVID-19 pandemic stood at 29.5% with youth unemployment above 40%. However, the UIF benefits payments paid reduced from 0.5% of GDP in 2000 to 0.4% in 2018.

With the possibility of the third wave in the horizon, and the socio-economic impact of the pandemic likely to persist for many years to come, the need for an inclusive and responsive social protection system is more urgent than ever before. This will ensure coverage for those who fall through the cracks especially in times of crisis.

To achieve this, we need partnerships between the public and private sector, working within the agreed policy and regulatory framework to deliver social protection, and create many opportunities for the private sector to engage where the public sector falls short and vice versa. There is an urgent need to increase efforts in the midst of all the challenges, to deal with the legacies of the past and confront the existing and new barriers to ensure inclusive economic growth for all South Africans.

I hope that this publication will be a useful tool for a national discourse and provide the basis for better informed policy choices as our country emerges from the devastating impact of the pandemic.

Ms Lindiwe Zulu, MP
Minister of Social Development

OVERVIEW BY THE ACTING DIRECTOR GENERAL OF SOCIAL DEVELOPMENT



The Social Budget Bulletin Issue 2 publication offers an opportunity to explore all aspects of South Africa's social security responses which encompass social assistance, social services, social insurance and private forms of coverage. The social budget is not a budget per se, but rather a reflection of the various programmes, schemes and arrangements that can broadly be categorized as forming part of the social security system. The social budget mechanism assists in reviewing and assessing coverage, scope and performance of our social security system to identify policy gaps and identify appropriate measures.


Part 1 of the report clarifies key social security concepts for readers to understand the different programmes and how they fit together. Part 2 offers

an analysis of South Africa's key social outcomes such as inequality, poverty and unemployment, and the role a comprehensive system of social security could play in structurally altering these outcomes for the better. In Part 3 the various time series analyses are provided for all aspects of the social security system. Weaknesses in the data are also identified, which hopefully can be improved in subsequent publications. Part 4 concludes and recommends some priority policy areas to improve social security provisions that contribute to the quality of life for all in South Africa.

In many respects, South Africa's social security system is a mixed bag of public and private arrangements that at present do not form part of a single well-articulated system. Achievement of a comprehensive system of social security will take time to build as a social compact between a wide range of stakeholders, role-players and society is critical. The high levels of structural inequality and unemployment in South Africa suggests that a new urgency emerges and calls for prioritization of important interventions based on evidence.

With this in mind, the report reflects the largely static nature of the social security system over time. The time series information has been modified from the first report to offer analysis from 2000 to 2018. Key observations can be summarized as follows:

First, there have been significant improvements in the coverage offered by social assistance



programmes, particularly with the expansion of the child support grant to those aged 18 and the equalization of the age eligibility at 60 for both men and women. However, many social contingencies are not protected through the social assistance grants system. These include:

- Vulnerable economically active unemployed people from the ages of 18 to 59 who have either never been in formal employment and who no longer qualify for benefits through the UIF;
- The caregivers of children who are recipients of the child support grant;
- Inadequate grant values in respect of the child support grant;
- Caregivers of children under foster care, where the inefficient process for determining eligibility leaves many without financial support for extended periods;
- Pregnant women without adequate incomes; and
- Child supervision support for working mothers without adequate incomes.

Second, the system of social insurance has remained very limited. As compared to other countries, the social insurance system does not adequately encompass retirement provision, invalidity and many aspects of healthcare. Government needs to establish the institutional framework for a second tier (social insurance tier) of earnings-related protection. The present institutional framework lacks effective capability to accommodate the required range of support measures.

Third, for income earning families income protection for old age, invalidity and loss of support is largely dependent on private arrangements which operate outside of a system of formal social security guarantees, pooling and social solidarity. As a consequence, despite working careers that involve

adequate earnings, the protection afforded is far from complete. This is also despite private social security expenditures amounting to roughly 14.8% of gross domestic product by 2018.

Fourth, South Africa remains without a complete social security approach to address structural unemployment. A complete system of income protection would include social insurance, conditional social insurance for long-term unemployed, and conditional social assistance for those falling outside of social insurance. Conditionalities could include requirements to participate in an array of labour activation programmes such as skills development programmes and job placement.

Fifth, the system of tax expenditure subsidies is overly generous to high-income families relative the social transfer programmes focused on low-income families. While tax expenditure subsidies are necessary to the current configuration of the social security system, consideration needs to be given to the considered harmonization of the complete framework of subsidies to ensure fairness in the distribution of state resources.

In conclusion, it is hoped that this report improves considerably on the first report, and provides new insights that will deepen the conversations on South Africa's system of social protection. The publication is an important platform to inform and trigger the development of evidence based policies.



Mr Linton Mchunu
Acting Director General: Department of Social Development

PART ONE: IMPORTANT SOCIAL SECURITY CONCEPTS

This part provides an overview of the conceptual approaches necessary to properly understand and interpret the Social Budget and its relationship to the prevailing social and economic context.

1.1 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 live 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 how our social programmes perform through the Social Budget.

The *Social Budget* provides a review of the largest sub-set of social programmes which focus on the prevention and mitigation of risks arising from contingencies with significant social

effects. Conventionally these are 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 insurance¹ 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

¹Actuarial insurance refers to private insurance arrangements that are priced 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.

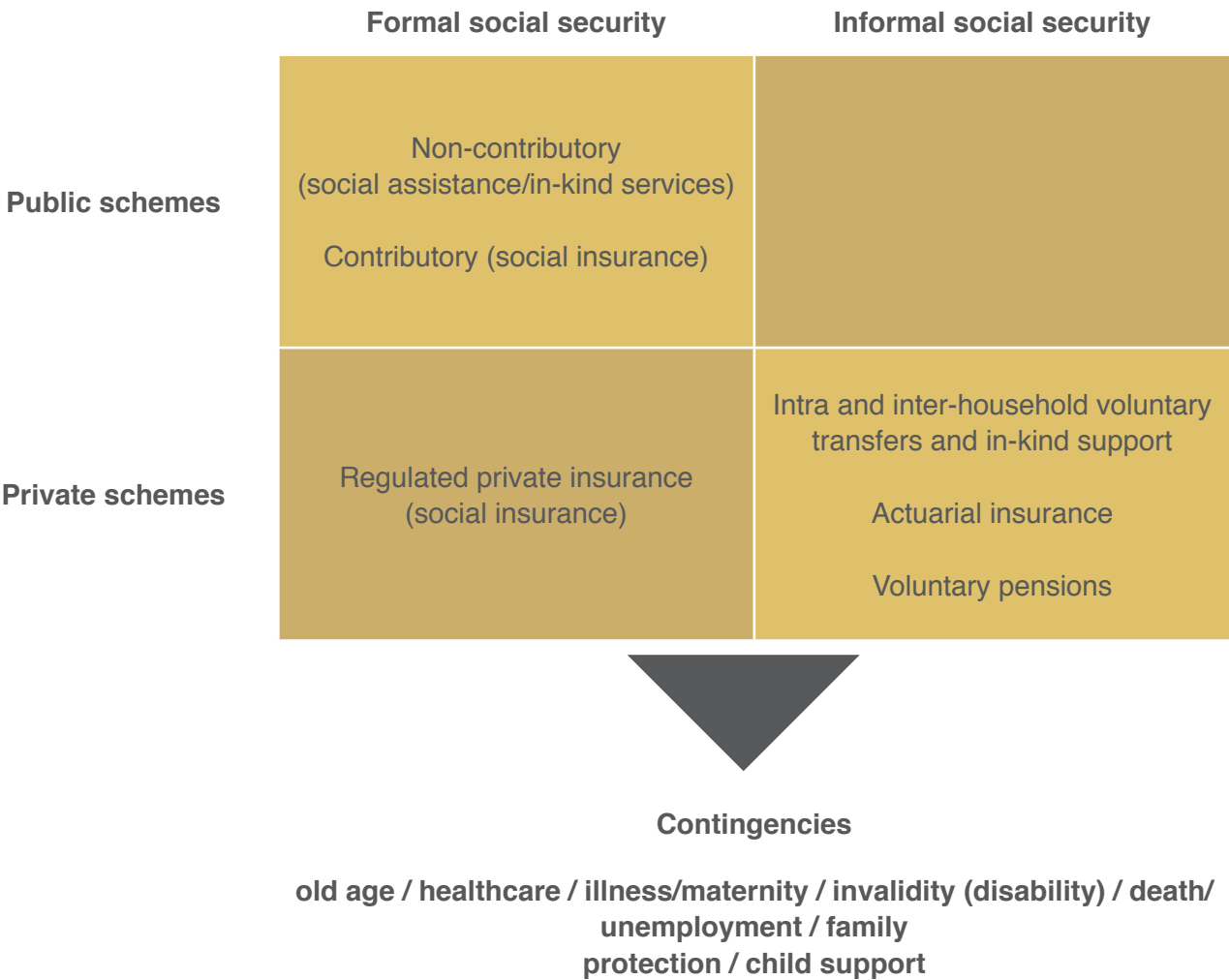
budgets allocated by parliamentary votes. They also take two forms: in-kind services, such as free healthcare or access to social workers; or financial transfers – as in the case of social assistance or cash transfers. Social assistance, also referred to as cash transfers, involve direct payments by 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 an opportunity to broadly assess the reach and effectiveness of the social security regime in South Africa and to begin to monitor its outcomes over time.

1.2 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, however. Crude expenditure and coverage levels are consequently insufficient as indicators of the quality of protection. Nevertheless, a large part of this report focuses on the crude macro indicators, as they do offer some indication of 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.

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



1.3 What is Social Security/Protection?

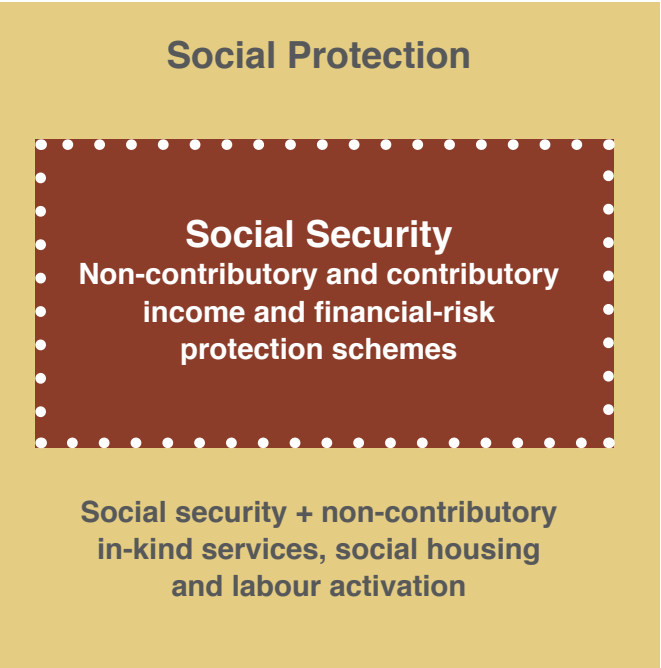
The terms social security and social protection are often used interchangeably. Social protection is however regarded as a broader concept, including schemes that reduce risk rather than only mitigate the occurrence of a risk.

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 private health services. 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



1.4 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 categorize 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

		Horizontal Pooling	
		Low	High
Vertical Pooling		Private insurance and pension (savings) schemes	Mandatory insurance and pension schemes with guaranteed benefits
		Targeted non-contributory schemes	Universal social protection for risk based contingencies and pensions

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.

1.5 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.

In South Africa, 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.

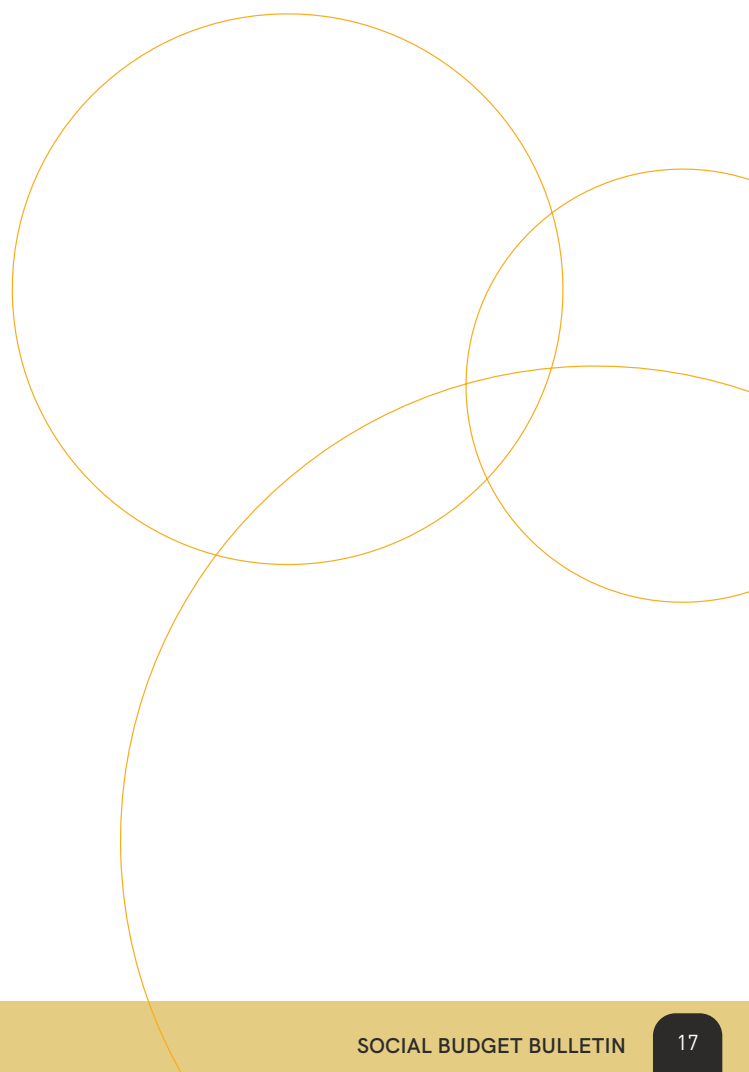


Table 1: Social security categories

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 pension arrangements, long-term insurance, medical schemes and out-of-pocket health expenditure	National Treasury	✓		
Public contributory (contributions)	Unemployment Insurance Fund	Department of Employment and Labour	✓		
	Road Accident Fund	Department of Transport	✓		
	Compensation for Occupational Injuries and Diseases	Department of Employment and Labour	✓		
	Compensation for mining-related diseases	National Department of Health	✓		
Private contributory (contributions)	All private pension 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						
	Health care	Old age protection	Invalidity	Death of a 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.

1.6 Understanding the goals of social security

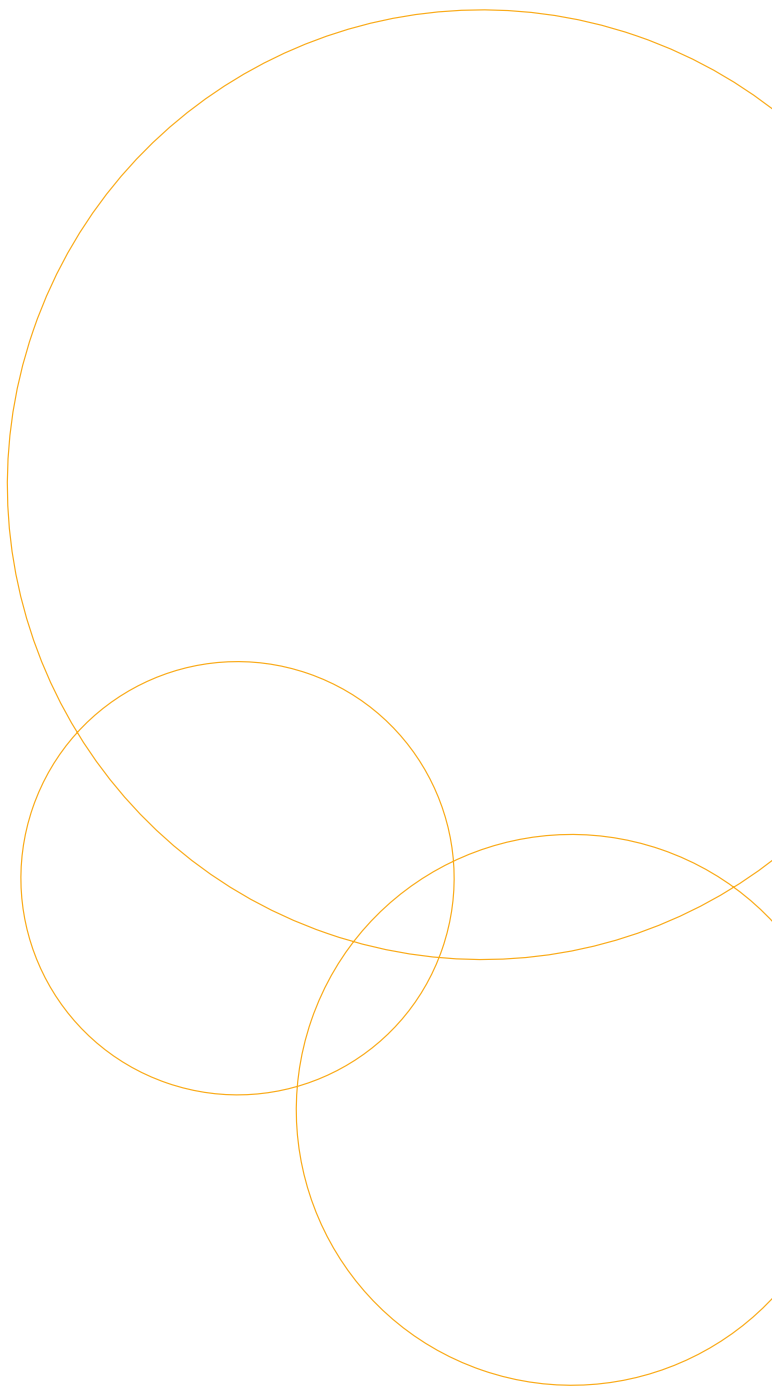
While earlier sections outlined technical aspects of social security, i.e. what they can do, the overall goals operate strategically at a societal level. Social security systems in modern societies structurally replace older, more community-based social protection arrangements, which, while appropriate 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 are less fair, structurally unequal (with 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 from high to low incomes 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.



PART TWO: SOUTH AFRICAN SOCIAL OUTCOMES AND THE CONTEXT OF SOCIAL SECURITY

This part reviews the domestic social and economic context, including the potential causes and possible policy solutions required to address endemic unemployment and inequality.

2.1 The Social Context and its Drivers

South Africa's levels of poverty using various poverty lines (indicative measures of absolute poverty) have remained very high for an upper middle-income country from 1994 to 2018 (Hundenborn, Leibbrandt, & Woolard, 2016; Statistics South Africa, 2014; The World Bank, 2018). The two related measures of unemployment and income inequality are also international outliers (Alvaredo & Atkinson, 2013; The World Bank, 2018).

Using the very low poverty line measure of US\$1.9 per day, roughly 18.8% of South Africans live below the poverty line (The World Bank, 2018). This value is however equivalent to less than R30 per day, or R900 per month – which is an artificially low measure of poverty and is likely to materially understate the true extent of the socioeconomic crisis facing South Africa. For instance an upper-bound poverty rate results in a headcount poverty rate upward of 60% for 2011 and upward of 50% in 2015 (Table 3). However, even these rates are extremely low and plainly understate the true extent of hardship and risk faced by the overwhelming majority of the population.

Table 3: Poverty headcounts using alternative poverty lines

Poverty line		Hoogeveen and Ozler 2006	Statistics SA 2008	Statistics SA 2015	SALDRU 2011
Food	Rands	480	321	335	337
	Headcount	34.5%	19.1%	20.8%	21.0%
Lower bound	Rands	680	443	501	534
	Headcount	48.1%	31.6%	36.2%	38.7%
Upper bound	Rands	1164	620	779	1042
	Headcount	66.0%	44.7%	53.2%	62.8%

Source: (Budlender, Leibbrandt, & Woolard, 2015, p. 30). The poverty lines are monthly per capita values expressed in March 2011 Rands. The headcount ratios are estimated using a consumption aggregate together with the Income and Expenditure Survey data for 2011.

The World Bank argues that only one in four South Africans can be regarded as stable members of the “middle class” or higher “whereas the other three are either poor or face an elevated risk of falling into poverty” (The World Bank, 2018, p. 35).

An outcome of these distributive failures is the structurally distorted distribution of wealth which has resulted in 10% of the population owning between 90-95% of all wealth (Orthofer, 2016). Earnings from labour are also highly concentrated, with around 55-60% accruing to the top 10% of the population (Alvaredo & Atkinson, 2013; Orthofer, 2016).

In other words 90% of the population owns between 5-10% of all wealth and earns only around 40-45% of income from labour. These disparities are exacerbated by low-income groups tending to live together and having to share incomes with extended families with even lower incomes (Wittenberg, 2017).

The distorted accumulation of wealth is a long-term consequence of persistent underlying distortions in the distribution of labour incomes. These are exacerbated by further distributive distortions arising from incomes earned from wealth (Piketty, 2014; Piketty & Saez, 2014), which are also taxed at far lower rates than labour incomes and, importantly, involve earnings that are unrelated to any productive activity on the part of wealth owners.

These distributive distortions have real world consequences through the hardships conferred on families and communities. They also structurally distort consumption patterns, which influences the development (economic and social) path of both the country and the region.

The stability through time of South Africa's socioeconomic outcomes is described as "chronic" by the World Bank (The World Bank, 2018). However, a more appropriate characterisation is that South Africa's socioeconomic outcomes are structural. That implies they are causally related to the organisation of the economy and weaknesses in the scale and quality of redistributive programmes organised by Government.

When consideration is given to the scale of the harm, a careful review of prevailing approaches to social and economic policy is needed to understand which policy configurations are best able to de-stratify and de-risk South African society. Importantly, the precarious conditions under which the majority of families live influences their ability to integrate into the emergent modern economy, slowing economic growth and development.

2.2 Strategic Economic Policy

South Africa could be argued to be following the development pathway of pre-industrial Britain – which, if actually pursued, would take approximately 200 years for some form of balanced society to emerge. However, many countries have managed to accelerate their modernisation without condemning the majority of their populations to precariousness and poverty. The lessons learnt from these experiences suggest that addressing structural distributional failures are essential for the achievement of accelerated growth and development.

This should be good news for policy-makers as this would suggest that redistributive strategies effectively pay for themselves – if done right. An important question to ask, however, is why such approaches have not been considered to date? The answer may lie with assumptions decision-makers have made to date about which policies drive growth. A central assumption being that redistributive policies are distinct from and potentially detrimental to growth and development policies.

Economic strategies premised on the view that social programmes are funded from the gains from growth, have arguably dominated economic policy in South Africa and the region. These implicitly de-emphasise the role a more equal distribution of income plays in accelerated growth and development. The alternative view, supported by emerging international evidence (Atems & Jones, 2015; Ostry, Berg, & Tsangarides, 2014; Stiglitz, 2014), suggests that counter-balancing inequitable market outcomes through effective redistribution is a requirement for accelerated growth and development.

Another core assumption revolves around the idea that economic strategies, mostly macroeconomic in nature, reflect universal "laws" that merely have to be implemented for growth to occur. However, decontextualised economic strategies are unlikely to accelerate an inclusive modernisation of the economy and any review of successful growth strategies reveals they are invariably context-specific.

The economic strategies available to large integrated markets such as those of the United States of America (and the countries forming part of its trading region), the European Union and China

are in a position to directly stimulate their economies in ways that do not result in counterproductive leakages of savings and production to other markets and regions.

Relatively small open economies, such as that of South Africa, Namibia and Botswana, by way of contrast, face the risk that any stimulation of domestic consumption, in the absence of any countervailing intervention, will very probably result in higher imports and a shift of domestic savings offshore. These tendencies have been evident for the entire post-1994 period and imply an upper-limit to South Africa's long-term growth rates in the absence of any structural changes to the economy.

For South Africa, conventional approaches to stimulating domestic demand through, for instance, reduced interest rates or tax reductions disproportionately boost the incomes and wealth of the top 5-10% of income earners where the consumption patterns favour products with a high import content and savings drift offshore to more diversified investment markets. The direct stimulation of incomes of the lower 50-90% of households has however not been considered as a serious policy strategy to date – despite the very different consumption and savings patterns that are likely to emerge.

Development strategies pursued by countries in a similar position to the local context have, by way of contrast, sought to gain control over their domestic economies through capital controls (to box in savings) and a combination of direct and indirect subsidies to infant industries. The mixed success of these strategies can in part be ascribed to the quality of governance, with more effective governments succeeding (Japan, China, South Korea, and Taiwan) (Amsden, 1994; Yusuf, 2001) and less effective governments failing (Latin America). However, a key distinction often made is the effect of an outward versus inward industrial strategy.

While in the past Latin America emphasised inward industrialisation (protection for domestic industries to sell to the domestic economy) while exporting primary products, the Asian countries focused on the protected development of manufactured products for export. The former were less successful as the markets for their manufactured output was too small (domestic) and offered insufficient prospects for advantages from scale. Their manufacturing base was therefore always vulnerable to exporters

with more integrated production chains who were able to innovate and operate at scale. The latter sought instead to actively structure their economic potential toward markets that made long-term sense given their context.

An interesting third pathway, referred to as social corporatism (Landesmann, 1992), was also pursued successfully in Western Europe, in particular the Scandinavian countries (Sweden, Finland, Norway and Denmark). Here, social security and labour market policies formed in integral part of the wider economic strategies. Industries were restructured using active labour market strategies together with the extensive de-commodification of key parts of the economy needed to generate social cohesion.

This de-commodification sought to de-link important social goods, services and incomes from labour incomes. This involved inter alia, free access to basic and higher education and healthcare, various forms of income protection for unemployment and disability, universal child support (regardless of family size), various schemes to protect access to housing and, importantly, comprehensive protection in old age involving income protection and care.

Far from harming economic productivity, the long-term effects of these strategies have been to stimulate growth and to enhance productivity. Active labour market strategies have furthermore increased labour market flexibility on the part of both the employer and the employee. The latter through de-risking job and career shifting.

Conventional neoclassical economic strategies focus superficially on employer flexibility to hire and fire and to underpay staff in the name of “efficient” competition. However, these one-sided contracts, which are increasingly prevalent in the United States and the United Kingdom, externalise social risks onto employees and contractors. Far from increasing efficiencies, these strategies arguably encourage short-term profit taking over long-term strategies – externalising the negative consequences to society. The costs for societies subjected to the resulting mix of incentives are immeasurable. But the symptoms are discernible and include structural unemployment, precarious work for an increasing share of the workforce and structural poverty.

“Industrialised” countries following this approach demonstrate the same social symptoms prevalent in South Africa. Regardless of the level of economic

development, once the institutionalised redistributive schemes are removed, structural social stratification emerges (see below). For countries, such as South Africa, where the redistributive schemes remain shallow and poorly governed, social stratification appears as an apparently eternal feature of the landscape. The mistake is to assume that this is merely an unavoidable consequence of economic modernisation rather than the predictable outcome of a set of policies.

Successful industrialisation approaches however have in common the development of strong institutional frameworks that can develop and manage complex strategies over long periods. For instance Andreoni et al (Andreoni, Chang, & Scazzieri, 2019, p. 3) argues that industrial policy strategies need to de-emphasise policy instruments and focus instead on “the complex nexus of linking structures, institutions and policies within a particular context (be it a country, a cluster of industries, or individual industries). Industrial policy is ultimately about production. This means that production organisations, not markets, are the main structures in which the polity and the society are embedded and, therefore, that the governance of these organisations and systems are critical in guaranteeing their reproduction, inclusiveness, and sustainability.”

In all instances a combination of context-specific macroeconomic and microeconomic interventions are involved, with express consideration given to a combination of supply- and demand-side interventions based on institutions that are able to integrate economic, labour market and social interventions.

The social policy part of this mix, in addition to de-risking society, must also preserve the integrity of domestic demand without disrupting social inclusivity or the supply of human capital. The impacts of such an approach would be socially developmental, macroeconomically coherent and, provided industrial and labour policies are properly designed and implemented, microeconomically coherent.

An important question however remains. What are the consequences of inequality on economic growth? Stated differently, are redistributive strategies harmful or helpful to economic growth?

2.3 Inequality and Growth

One way to examine the relationship between growth and inequality is to look at factors that explain the relatively healthy distributions of income found in many “developed” economies.

The Organisation of Economic Cooperation and Development (OECD) estimates that a significant difference exists between pre and post tax inequality for a selection of OECD countries.

The average post-transfer improvement in the gini coefficient for 24 OECD countries is around 30% (0.34-0.27) with very significant improvements for countries such as Sweden, Belgium and Denmark (around 40%) (Figure 4). The United States, by way of contrast exhibits an improvement of only around 17-18%. Without these government organised transfers, all the OECD countries reflected would become structurally unequal, regardless of their level of economic development.

The pre and post-transfer gini coefficients for some of the selected OECD countries in Figure 4 are provided in Figure 5. This shows that for most countries the pre-transfer gini coefficients would be similar to the levels of inequality found in South Africa (and the region). For instance, in the absence of redistribution, Sweden would apparently have a gini coefficient of 0.75. Post-transfer it drops to 0.29. This highlights an important point. Growth and development on their own cannot eliminate inequality and poverty. Unadjusted market-related distributions of income generate inequality in almost all instances and require extensive programmes of redistribution to correct the resulting income and social imbalances.

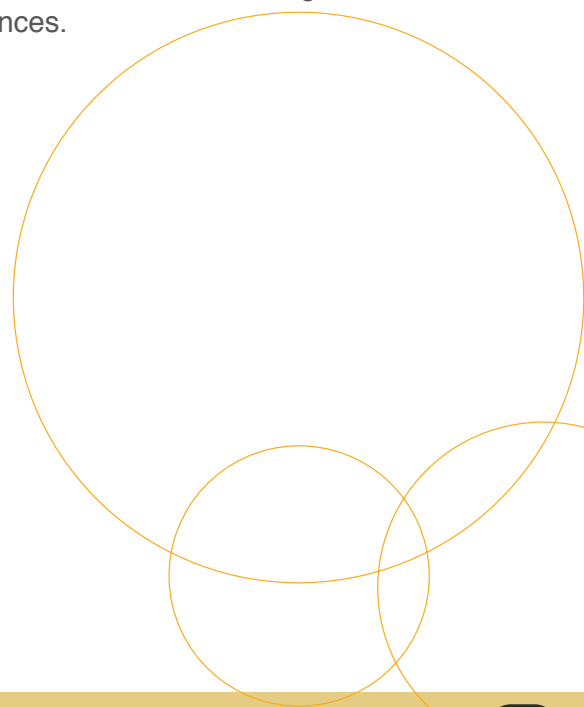
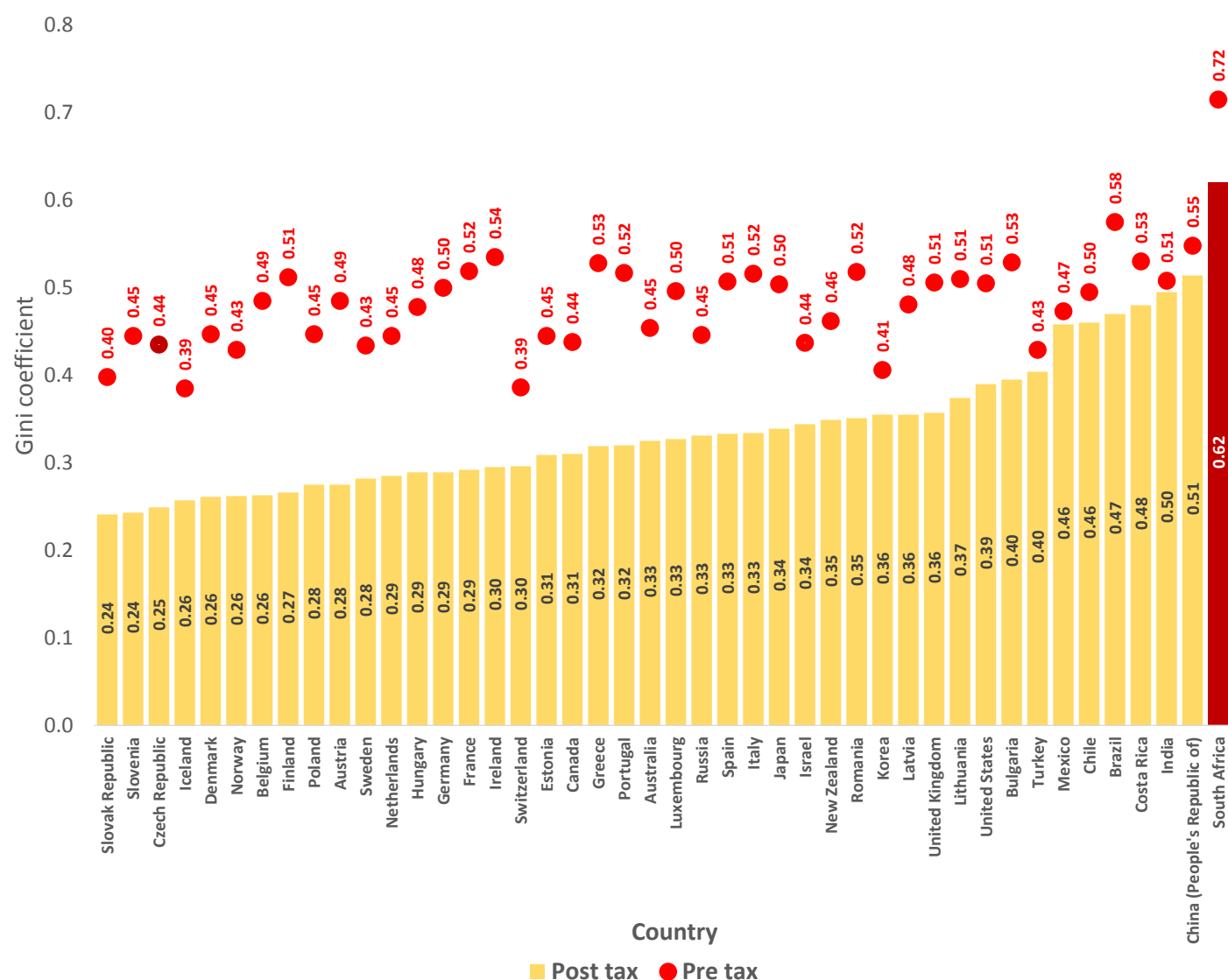


Figure 4: Differences in inequality before and after taxes and transfers in selected OECD countries (around 2020)

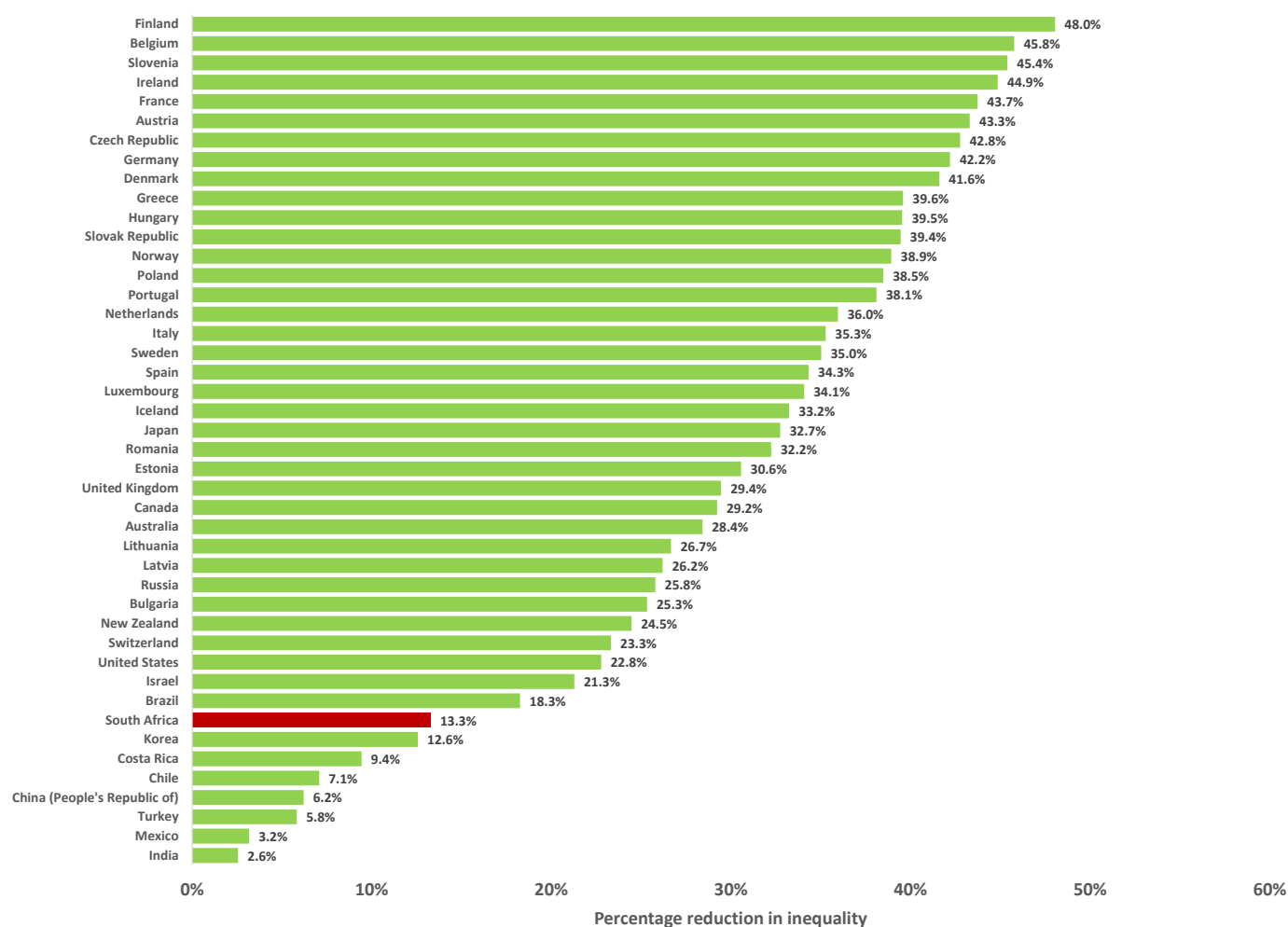


Source: (OECD, 2020)

These observations arguably imply that an important explanation for South Africa's levels of poverty and inequality lie in large part with the failure to counter balance the market related distributions of income with schemes and programmes that explicitly seek to reduce income inequality. Importantly, there is no evidence to suggest that the extent of these programmes in any way obstruct growth and development, or that they place countries following this approach at a disadvantage within the global economy. The International Monetary Fund (IMF), for instance, reaches this important conclusion in a 2014 quantitative analysis of redistribution and growth:

Extreme caution about redistribution and thus inaction is unlikely to be appropriate in many cases. On average, across countries and over time, the things that governments have typically done to redistribute do not seem to have led to bad growth outcomes, unless they were extreme. And the resulting narrowing of inequality helped support faster and more durable growth, apart from ethical, political, or broader social considerations. (Ostry et al., 2014, p. 26)

Figure 5: Percentage reductions in the gini coefficient due to post tax redistribution



Source: (OECD, 2020)

This data reflects the gini coefficients for the selected OECD countries pre- and post-transfers. The movement from the pre to the post-transfer gini coefficient is based on the data provided in **Figure 4**.

In recent years, OECD countries responded to the post 2008 economic slowdown with a combination of fiscal consolidation (austerity measures) and quantitative easing. The result, predictably, was a worsening of income inequality and increased poverty, coupled with an economic stimulation at the wrong end of the income spectrum. Quantitative easing fed asset value growth instead of the more inclusive demand stimulus that would have been generated through redistributive schemes. The ultimate effect has been anaemic growth, with low quality (precarious and low wage) job growth. But the stakeholders who lobbied for these strategies have benefitted significantly with their improvements in income, resulting in a drag rather than a stimulation of demand (Cynamon & Fazzari, 2015).

OECD research findings support the IMF results:
But new research at the OECD finds consistent evidence that the long-term rise in inequality of

disposable incomes observed in most OECD countries has indeed put a significant brake on long-term growth. Further, it shows that efforts to reduce inequality through redistribution – typically, certain forms of taxes and benefits – do not lead to slower growth... (OECD, 2015, p. 26)

What this suggests is that South Africa's social and economic outcomes are the expected consequence of the present configuration of institutionalised policies which fails to correct imbalances in the distribution of income.

Given this, strong arguments exist for a reconsidered policy framework for South Africa that is able to efficiently exploit the country's tax capacity and expand the demand of the lower 90% of income earners. If properly implemented, this will alter the structure of consumption toward

less import intensive products, and thereby foster domestic investment, industrialisation and employment. In this approach, redistributive expenditure grows employment indirectly rather than directly. Employment is therefore generated in new industries through changes in the structure of demand rather than by exclusive reliance on targeted supply-side measures.

Restructuring demand is however unlikely to work well in the absence of supply-side measures. These can take the form of: employment generating infrastructure expenditure increases, which are inherently redistributive in their direct and second-order effects; industrial policies that focus on the establishment of enabling platforms for industries capable of localising manufacturing and services; and labour market reforms which focus on facilitated labour activation (income-supported job-skilling and job placement) closely tied to industrial policy.

A complete policy framework attempts to internalise and institutionalise demand and supply policies in favour of the development of a balanced society.

2.4 Education, Unemployment and Inequality

An attempt to explain South Africa's structural inequality focuses on the influence poor levels of education have on the employability of a large portion of society. This view emphasises employment as the principal mechanism for distributing income and suggests that employability is constrained by the distribution of education. This argument regards social protection schemes as a residual safety-net measure for individuals and families that for one reason or another fall on hard times. Aspects of the National Development Plan strongly reflect this perspective:

Social protection should be available to all when they need it the most. It is critical in the fight to eliminate and prevent poverty and reduce inequality. However, it is not aimed at meeting the total needs of the individuals. The measures are designed to lift recipients out of poverty, rather than providing passive protection against contingencies and risk. They are a means to enable the most basic needs (defined in the 'social floor') to be met and provide relief during crisis situations.

They should address chronic poverty, support the poor to develop the capacity to address the

environmental, economic and social risks and causes of poverty, such as unemployment, exclusion, sickness, disability and old age, and promote people's capabilities. By raising labour productivity these measures create the conditions for people to move out of poverty in the future and so enhance social stability. (National Planning Commission, 2011, p. 358)

This view argues for severely constrained levels of redistribution, with programmes of support only able to mitigate the effects of certain adverse life events. Poverty is seen as the critical social evil rather than inequality.

Poverty is however largely accepted as one of the symptoms of inequality, which takes many forms depending upon the distribution of risk in society. For instance, a highly educated engineer aged 60 to 65, assumed to have substantial capabilities, could drop into poverty and distress, together with their dependants, if they lose their employment (due to a mine closure) and suffer a severe health event. Upward of 90% of South Africa's population are only one adverse event away from some version of poverty.

The policy question facing South Africa therefore requires a critical review of the assumption that poor levels of employment are related to "labour productivity" as opposed to a failure to more evenly distribute consumption and demand. Ultimately, the demand for labour and its associated skills mix is dependent on what production is demanded. Ignoring the question of how domestic demand is distributed will therefore result in policy configurations that under-employ domestic resources regardless of what education has been received.

The role played by education in generating a balanced society is principally a question of location within the policy framework, rather than prioritisation relative to other policies. Education policy supports supply aspects of the economy, with its effectiveness in generating productive employment opportunities very much dependant on the configuration of domestic and international demand for domestically produced products. The local economic context is furthermore dependant on the quality of local infrastructure and the governance of socially produced goods and services through public organisations and institutions.

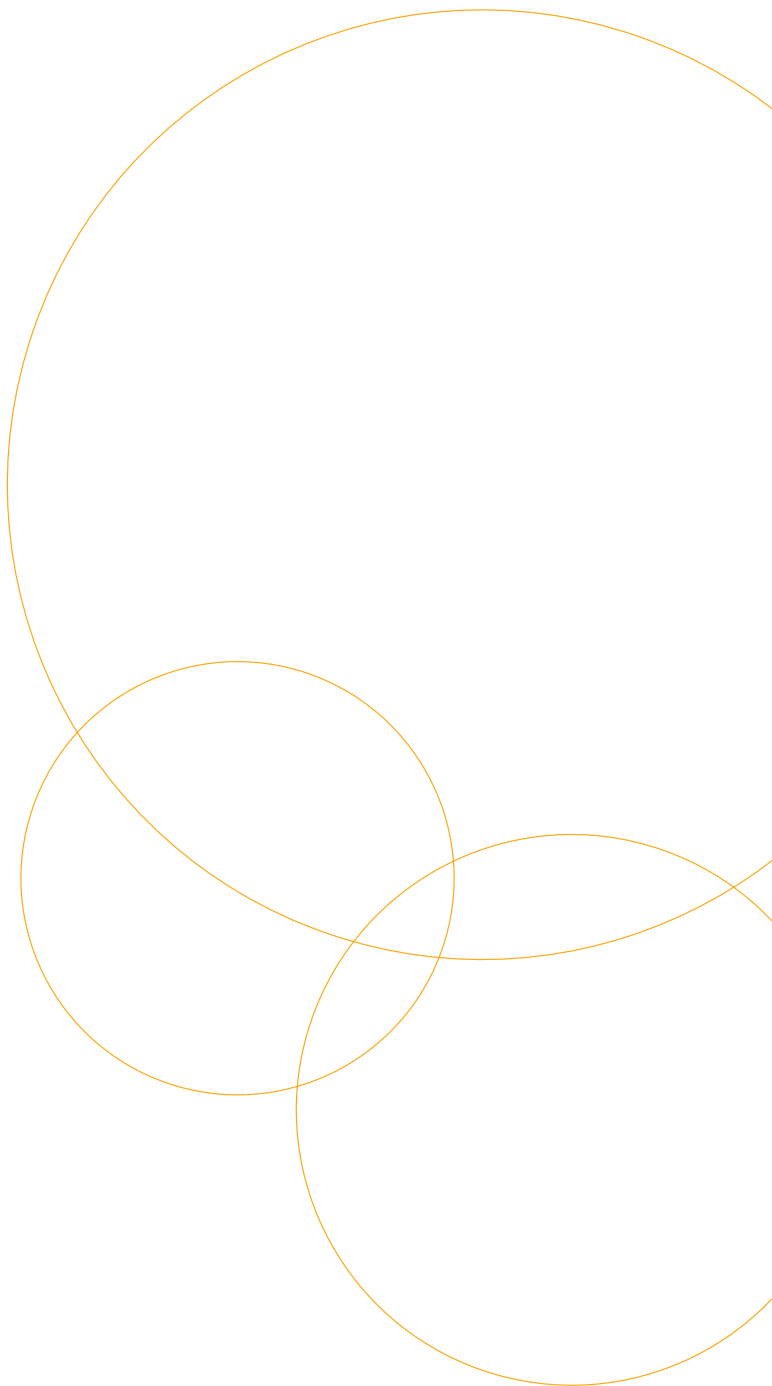
2.5 Conclusions and Implications for South Africa

South Africa's unsatisfactory social context creates the appearance of multifaceted and complex causes, an appearance given justification by the proliferation of social ills. However, the causes appear to be relatively straightforward.

South Africa's economic and social policy strategies concentrate the gains from economic growth in the hands of a relatively small proportion of the national economy. This outcome consequently undermines the development of a healthy distribution of economic demand and associated industries, and condemns nearly 90% of the national population to a precarious high-risk existence, where even those with some income are only one adverse event away from destitution.

The evidence now overwhelmingly supports the view that economic productivity and healthy development emerges only in societies that institutionalise the de-stratification of their societies using comprehensive systems of social security in conjunction with labour market and related industrial strategies. Regardless of the level of a country's development, in the absence of effective redistribution, inequality, poverty and under-employment are structural outcomes.

With this in mind, it is important to consider the adequacy of South Africa's system of social security, which is discussed in **Part Three**.



PART THREE: SOCIAL BUDGET RESULTS

This part provides data on the South African system of social security, referred to as the Social Budget. The information covers both public and private sector coverage of various aspects of social protection.

3.1 Approach

As the social security system involves a complex mix of institutional frameworks, organisations and financing arrangements, there is no single approach to reflecting a holistic picture. This report has chosen to break down the system according to three key thematic approaches.

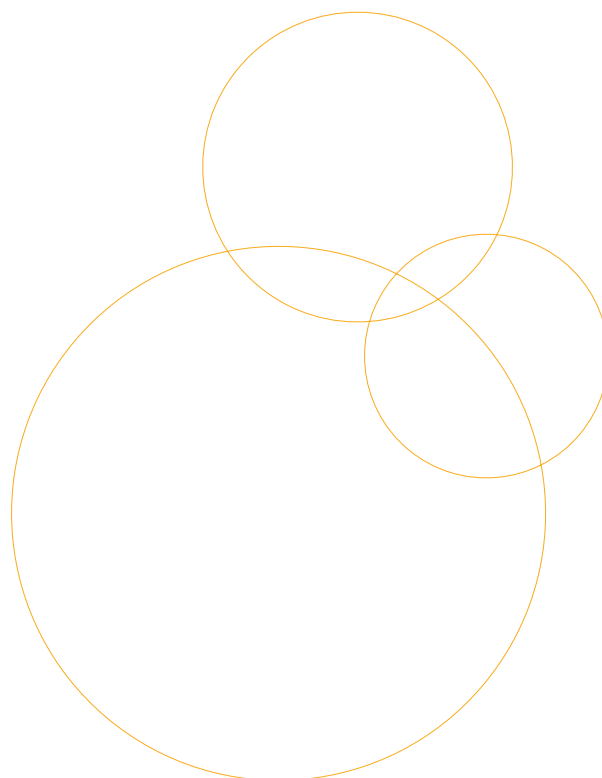
- First, the system is discussed broadly as a whole, as if it were a single framework.
- Second, the system is discussed by key broad contingencies – poverty, inequality and unemployment; healthcare; old age; and invalidity.
- Third, key cross-cutting themes are discussed – tax expenditure subsidies, social insurance and regulated markets.

3.2 Overview of the Social Security System

Social security systems are institutionalised systems of social protection that serve to remove certain risks or contingencies that are beyond the control of families from harming their livelihood and wellbeing. Institutionalised systems need to be distinguished from arrangements that are ad hoc and discretionary in nature. The former are referred to in this report as formal systems of social protection, while the latter are informal. While informal schemes can provide some protection, their existence and the access they offer is not guaranteed and could be withdrawn or lost in ways that families dependent on them may not be able to control.

Only formal systems of social security offer significant opportunities to restructure the social and economic fabric through managing social risk and re-shaping distortions in the distribution of income.

South Africa has a very selective social security and predominantly informal framework, with the formal aspects highly targeted (specific categories of beneficiary and means tests), and the bulk of social protection expenditure informal.²



²Formal social security is exclusively made up of contributory private expenditure in the form of regulated medical schemes (3.9% of GDP in 2018) and non-contributory expenditure in the form of social assistance and public health expenditure (3.4% in 2018). Contributory public expenditure, which also forms part of formal social security, is very small, making up only 1.5% of GDP in 2018.

Box 1: Formal and informal social protection/security

Formal and informal social protection/security. Informal arrangements include intra and inter-household payments and assistance (financial and in-kind) as well as voluntary private insurance arrangements of various forms (including community-based schemes) as well as employee benefit schemes of various forms (health, loss-of-support and loss of income, pensions).

Formal arrangements involve frameworks and schemes where access is guaranteed by statute and enforceable through a functioning independent judiciary, regardless of whether the arrangements are offered through a public or private scheme.

Formal systems offer the opportunity for institutionalised social transfers that have both **direct** and **indirect** effects.

- Direct effects operate through the benefits that smooth incomes and cover losses incurred of various kinds. These are the positive effects on beneficiaries.
- Indirect effects can be seen in both macroeconomic and microeconomic terms. The former include the stabilising demand effects on production arising from income protection, while the latter includes positive effects on the structure of industry flowing from the demand protection.

The redistributive elements, which involve vertical transfers from high to low income families (see **Part One** of this report), fall under the formal general tax funded part of the social security system. In 2018 the formal system of social security constituted 12.8% of gross domestic product (GDP) (9.0% excluding medical schemes), up from only 9.3% (6.2% excluding medical schemes) in 2000 (**Table 4**). However, this includes public contributory schemes and regulated private medical schemes,

which are not particularly redistributive as they protect only income earners in the formal sector, largely with earnings-related benefits. Informal social security expenditure, amounting to 12.7% of GDP in 2018, is made up of private retirement and risk benefit contributions (for death and disability protection) and medical schemes. This reflects a decline from 19.8% in 2000. Both formal and informal social security expenditure totalled 21.6% of GDP in 2018, down from 26.0% in 2000.

Table 4: Formal and informal social security benefit expenditure expressed as a percentage of GDP (including administration expenditure)

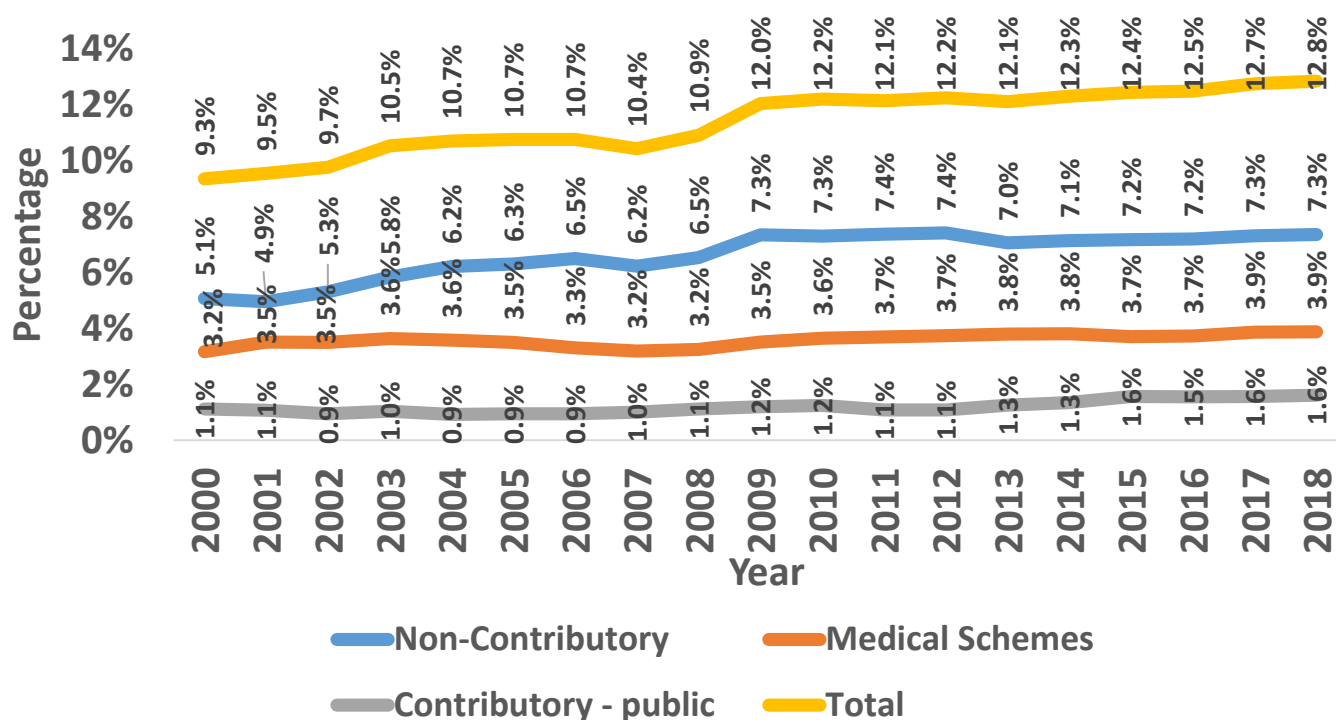
Type of system	2000	2011	2012	2013	2014	2015	2016	2017	2018
Formal Incl. MS*)	9.3	12.1	12.2	12.1	12.3	12.4	12.5	12.7	12.8
Formal (excl. MS*)	6.2	8.4	8.5	8.3	8.5	8.7	8.7	8.9	9.0
Informal (incl. MS*)	19.8	16.4	18.9	24.4	24.6	18.7	15.2	14.8	12.7
Total	26.0	24.8	27.4	32.7	33.1	27.4	24.0	23.6	21.6

*Medical schemes regulated in terms of the Medical Schemes Act (National Department of Health, 1998)

Source: (Statistics South Africa, 2000 to 2018a; Wits School of Governance, 2020)

When medical schemes are removed, only 9.0% is spent on formal social security. Moreover, when only non-contributory formal social security schemes are considered (the most redistributive), spending drops to only 7.3% of GDP (Table 5), or just over half of formal social security spending.

Figure 6: Formal social security expenditure expressed as a percentage of GDP



Source: (Wits School of Governance, 2020)

Non-contributory expenditure on social security has improved from 5.1% of GDP in 2000 to 7.3% by 2018 (Figure 6 and Table 5). This is largely due to improvements in social assistance (direct transfers to households), in particular changes in entitlements to the very limited Child Support Grant (CSG), and public health expenditure.

However, social assistance has remained at roughly 3.4% of GDP (up from 2.1% in 2000) or a decade and has therefore not significantly addressed income inequality in South Africa. There is furthermore no

social assistance coverage for unemployed adults from the ages of 19 to 59, and the financial values of benefits provided to qualifying beneficiaries are insufficient and weak. While it is argued by some that redistributive expenditure in South Africa is substantial, has improved and cannot be enhanced due to fiscal constraints (van der Berg, 2011, pp. 134-135), the social outcomes experienced (as discussed above) are worsening and suggest that redistributive expenditure is significantly below what is required.³

Table 5: Social security expenditure expressed as a percentage of GDP from 2000 to 2018

Type of scheme	2000	2011	2012	2013	2014	2015	2016	2017	2018
Non-contributory	5.1	7.4	7.4	7.0	7.1	7.2	7.2	7.3	7.3
Contributory – private*	19.8	16.4	18.9	24.4	24.6	18.7	15.2	14.8	12.7
Contributory – public*	1.1	1.1	1.1	1.3	1.3	1.6	1.5	1.6	1.6
Overall total	26.0	24.8	27.4	32.7	33.1	27.4	24.0	23.6	21.6

*Expenditure on contributions

Source: (Statistics South Africa, 2000 to 2018a; Wits School of Governance, 2020)

³The question of fiscal constraints depends largely on the second-order effects of redistributive transfers, which are likely to be broadly positive within the South African context.

Based on the social outcomes noted earlier, South Africa's social security system can be regarded as inadequate in three respects. First, the public non-contributory (general tax funded) part of the system, which in 2018 accounts for only 7.3% of GDP (R367 billion), fails to redistribute income sufficiently to address income inequality and adequately smooth consumption. Second, public contributory social insurance schemes, which should provide a crucial layer of risk and income protection to income earners and their families amounts to a mere 1.5% of GDP in 2018 (R76 billion). Therefore, most income-earning households are likely to be one adverse event away from a severe decline into income poverty, as they are precariously dependent on variable private insurance regimes and private savings.

There is for instance no holistic protective framework that deals with unemployment, i.e. income protection beyond basic unemployment

insurance and access to work opportunities (labour market initiatives). Third, private contributory social schemes involve no institutionalised guarantees of access to protection, leaving many income earners vulnerable to sub-optimal coverage and benefits due to the conduct of private actors (employers and private commercial schemes).

Overall social security expenditure, including public non-contributory, public contributory and private contributory systems amounted to 21.6% of GDP in 2018 or R1.1 trillion (2018 prices) (Table 6). Private contributory expenditure (12.7% of GDP) however substantially exceeds public contributory expenditure which amounts to only 1.6% of GDP. The largest part of the social security system in financial terms therefore offers weak protection to only a subset (less than the top 10 of income earners) of the employed population and their dependants.

Table 6: Social security expenditure from 2014 to 2018 (R'million) (2018 prices) (including administration expenditure)

Type of scheme	2014	2015	2016	2017	2018
Non-contributory	338 696	345 288	350 079	357 935	367 330
Contributory – private*	1 168 461	901 970	741 728	723 408	633 576
Contributory – public*	64 099	75 091	75 380	76 442	80 380
Overall total	1 571 256	1 322 348	1 167 187	1 157 785	1 081 287

*Expenditure on contributions

Source: (Wits School of Governance, 2020)

3.3 Poverty and inequality – social assistance

Poverty, inequality and unemployment are closely related contingencies and the various interventions required to prevent or mitigate them vary widely. The extent of poverty and inequality in South Africa is highlighted above. In this section the focus is narrowly on the social security programmes that have an important influence on these contingencies. These are the highly redistributive social assistance programmes, which have their focus on income support to those without adequate incomes.

Social assistance benefits are provided through a number of categorical programmes, where fairly narrow eligibility criteria for means-tested benefits are available. The programmes are highly targeted,

with arguably many income vulnerable families ineligible for benefits. The contingencies covered include: Old age, disability/invalidity, families with foster children, income vulnerable families with children and instances of family hardship (care dependency and grants in aid).

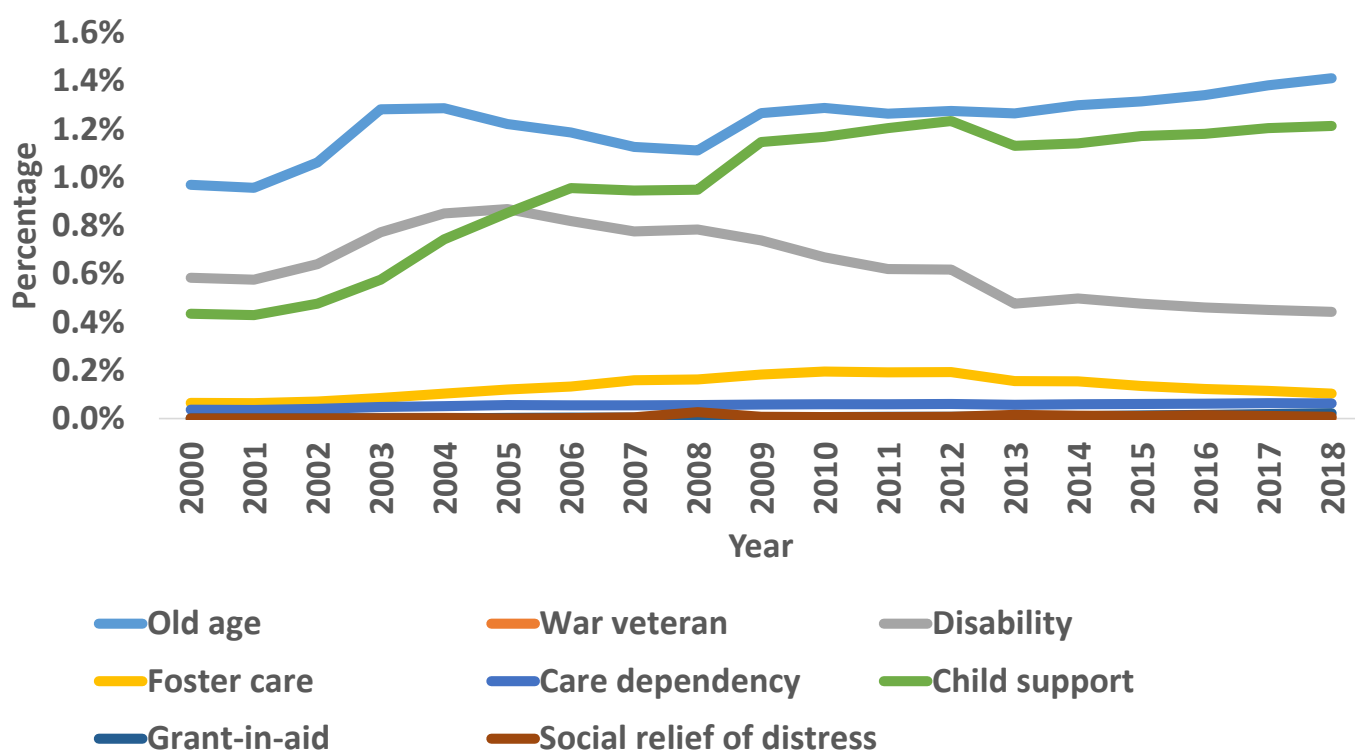
Expressed as a percentage of GDP, social assistance expenditure is a relatively modest 3.3% in 2018 relative to only 2.1% in 2000 (Table 7 and Figure 7). The relative improvement is largely due to the increased age eligibility granted to children, which improved from under 6 in the period to 2003, to 18 (in stages) thereafter. There is also an improvement in beneficiary numbers for old age, also due to changes in eligibility by age – in this case for males (where the age of eligibility declined from 65 to 60 due to legal challenges).

Table 7: Social assistance expenditure expressed as a percentage of GDP from 2000 to 2018

Grant	2000	2009	2018	Change 2000 to 2018	Change 2009 to 2018
Old age	1.0	1.3	1.4	45.7	11.4
Old age, over 75's	0.0	0.0	0.0	n/a	n/a
War veteran	0.6	0.7	0.4	-24.2	-40.1
Disability	0.1	0.2	0.1	59.1	-43.7
Foster care	0.0	0.1	0.1	73.9	9.3
Care dependency	0.4	1.1	1.2	179.2	5.8
Child support	0.0	0.0	0.0	n/a	n/a
Grant in aid	0.0	0.0	0.0	n/a	15.4
Total	2.1	3.4	3.3	56.1	-4.2

Source: Based on (Statistics South Africa, 2000 to 2018a; Wits School of Governance, 2000 to 2019)

Figure 7: Social assistance expenditure from 2000 to 2018 expressed as a percentage of GDP



Source: Based on (Statistics South Africa, 2000 to 2018a; Wits School of Governance, 2000 to 2019)

The overall number of social assistance beneficiaries demonstrates a deceptively impressive improvement from 2.9 million in 2000 to 17.5 million in 2018 (**Table 8**). Most of this improvement is due to the expansion of eligibility for the low-valued child-support grant, which saw beneficiaries move from 0.4 million in 2000 to 12.4 million in 2018. Both the disability/invalidity and old age grants, which have much higher grant values, also saw significant improvements of 71.4% and 88.8% over the full period.

Table 8: Social assistance beneficiaries from 2000 to 2018

Grant	2000	2009	2018	Change 2000 to 2018	Change 2009 to 2018
Old age	1 861	2 413	3 513	88.8	45.6
War veteran	8	1	0	n/a	n/a
Disability	613	1 307	1 050	71.4	-19.6
Foster care	80	483	398	397.9	-17.6
Care dependency	24	107	154	530.2	43.7
Child support	353	8 846	12 402	3417.1	40.2
Grant-in-aid	9	47	0	n/a	n/a
Total	2 947	13 204	17 517	494.5	32.7

Source: Based on (Wits School of Governance, 2000 to 2019)

Overall grant expenditure has risen from R103 billion in 2000 to R163 billion in 2018 (2018 prices, with the highest expenditure attributable to the old age grant, which reached R70.5 billion in 2018 up from R48 billion in 2000 (an increase of 47.2%) (2018 prices) (**Table 9**). The child support grant is the next most important grant in expenditure terms at R60.6 billion in 2018, up from R21 billion in 2000 (an increase of 182.2%) (2018 prices).

Table 9: Social assistance expenditure from 2000 to 2018 (R'million) (2018 prices based on a GDP index)

Grant	2000	2009	2018	% Change 2000 to 2018	% Change 2009 to 2018
Old age	47 911	62 995	70 531	47.2	12.0
War veteran	95	39	3	n/a	n/a
Disability	28 862	36 747	22 105	-23.4	-39.8
Foster care	3 191	9 065	5 132	60.8	-43.4
Care dependency	1 786	2 856	3 138	75.8	9.9
Child support	21 488	57 005	60 631	182.2	6.4
Grant-in-aid	0	290	1 060	n/a	265.4
Social relief of distress	0	328	381	n/a	16.0
Total	103 334	169 324	162 981	57.7	-3.7

Source: Based on (Statistics South Africa, 2000 to 2018a; Wits School of Governance, 2000 to 2019)

Improvements in the quality of benefits, by which is meant the positive change over time in the financial value of the grant in real terms, have been relatively modest over the period 2000 to 2018, despite the changes in beneficiary numbers and expenditures. When the real values are calculated using the CPI (**Table 10**), improvements in grant values look reasonable for the child support grant and grants in aid, with both indicating a 45.0 improvement over the period 2000 to 2018 although the absolute value remains very low. However, the other grants have been only slightly improved, with changes of only 10.0% and 12.4%. Using the GDP index (**Table 11**), all grant values have declined in real terms. The GDP index quantifies the extent to which grant values have fallen behind economic growth, and hence the extent to which fiscal space has not been prioritised in their favour. It can however be argued that fiscal space has been prioritised for increases in beneficiary numbers rather than benefit quality.

Real changes in the means test values mirrors the grant value changes, with the child support grant improving by 41.7% over the period 2000 to 2018, and the other grants by 10.9% or 12.6% ⁴ (**Table 12**). When viewed from the perspective of the GDP index, the real means test values have declined considerably, by 24.3% in the case of the child support grant, and 40.7% in the case of social assistance for old age.

Table 10: Social assistance grant values from 2000 to 2018 (Rands) (2018 prices based on the CPI)

Grant	2000	2009	2018	% Change 2000 to 2018	% Change 2009 to 2018
Old age	1 508	1 624	1 695	12.4	4.4
Old age, over 75's	0	0	1 715	n/a	n/a
War veteran	1 559	1 656	1 715	10.0	3.6
Disability	1 508	1 624	1 695	12.4	4.4
Foster care	1 089	1 093	960	-11.9	-12.2
Care dependency	1 508	1 624	1 695	12.4	4.4
Child support	279	386	405	45.0	5.0
Grant in aid	279	386	405	45.0	5.0
Social relief of distress	1 508	1 624	1 695	12.4	4.4

Source: Based on (Statistics South Africa, 2000 to 2019; Wits School of Governance, 2000 to 2019)

Table 11: Social assistance grant values from 2000 to 2018 (Rands) (2018 prices based on a GDP index)

Grant	2000	2009	2018	% Change 2000 to 2018	% Change 2009 to 2018
Old age	2 822	2 003	1 695	-39.9	-15.4
Old age, over 75's	0	0	1 715	n/a	n/a
War veteran	2 916	2 043	1 715	-41.2	-16.0
Disability	2 822	2 003	1 695	-39.9	-15.4
Foster care	2 038	1 349	960	-52.9	-28.8
Care dependency	2 822	2 003	1 695	-39.9	-15.4
Child support	523	476	405	-22.5	-14.9
Grant in aid	523	476	405	-22.5	-14.9
Social relief of distress	2 822	2 003	1 695	-39.9	-15.4

Source: Based on (Statistics South Africa, 2000 to 2018a; Wits School of Governance, 2000 to 2019)

⁴The means test changes through time for old age

**Table 12: Social assistance means test values from 2000 to 2018 (Rands)
(2018 prices using both the CPI and a GDP index)**

		2000	2009	2018	% Change from 2000 to 2018
2018 prices using CPI					
Asset threshold					
Old age & Old age over 75's	Single person	1 006 181	1 076 777	1 115 400	10.9
	Spousal relationship	2 012 363	2 153 555	2 230 800	10.9
	Income threshold				
	Single person	69 366	74 232	78 120	12.6
	Spousal relationship	138 731	148 465	156 240	12.6
	Income threshold				
Child support grant	Single person	33 878	46 521	48 000	41.7
	Spousal relationship	67 756	93 043	96 000	41.7
	Income threshold				
Care Dependency	Single person	182 942	195 778	202 800	10.9
	Spousal relationship	365 884	391 555	405 600	10.9
2018 prices using a GDP index					
Asset threshold					
Old age & Old age over 75's	Single person	1 882 321	1 328 585	1 115 400	-40.7
	Spousal relationship	3 764 642	2 657 170	2 230 800	-40.7
	Income threshold				
	Single person	129 766	91 592	78 120	-39.8
	Spousal relationship	259 532	183 184	156 240	-39.8
	Income threshold				
Child support grant	Single person	63 378	57 401	48 000	-24.3
	Spousal relationship	126 756	114 801	96 000	-24.3
	Income threshold				
Care Dependency	Single person	342 240	241 561	202 800	-40.7
	Spousal relationship	684 480	483 122	405 600	-40.7

Source: Based on (Department of Social Development, 2020; Statistics South Africa, 2000 to 2018a, 2000 to 2019)

Overall, social assistance has not meaningfully improved relative to the scale of poverty and inequality as it exists in South Africa presently and over the period from 2000 (Schiel, Leibbrandt, & Lam, 2016). It nevertheless structurally alters the income distribution from a gini coefficient of 0.8 to around 0.65 (Bosch, Rossouw, Claassens, & du Plessis, 2010). Important gaps also exist in the social assistance framework, with the following areas worth considering:

- Vulnerable economically active unemployed people from the ages of 18 to 59 who have either never been in formal employment and who no longer qualify for benefits through the UIF;
- The caregivers of children who are recipients of the child support grant;
- Inadequate grant values in respect of the child support grant;
- Caregivers of children under foster care, where the inefficient process for determining eligibility leave many without financial support for extended periods;
- Pregnant women without adequate incomes;
- Child supervision support for working mothers without adequate incomes; and
- Unconditional universal non-specific income support to structurally protect all families from vulnerability arising from inadequate incomes

In addition to the above, the retention of a means tests for many grants is administrative and can result in errors of exclusion, poverty traps and negative impacts on the dignity of applicants by stigmatising recipients. Aside from improved eligibility for child support and old age, very few of the Taylor Committee recommendations regarding social assistance were followed up from 2002. As a consequence, social assistance has played an important, but negligible role in systemically addressing poverty and inequality in South Africa.

In the case of unemployment, the UIF, a relatively shallow social insurance intervention, has a very limited impact on structural unemployment and inequality. There are three reasons for this:

- First, benefits are available only to contributors, excluding that portion of the economically active population that has never worked in the formal economy (where participation in the UIF is mandatory);
- Second, benefits are limited to just under 12 months of income protection, leaving many

without income protection if an industry goes into decline or restructures; and

- Third, active labour market measures have not been linked to UIF benefits, limiting the ability of retrenched workers to move into new forms of employment.

With the above in mind, a case exists for a careful re-examination of the future role redistributive social assistance programmes can make in the achievement of balance in the distribution of income, consumption and economic development in South Africa. This examination would need to harmonise social assistance, social insurance and labour activation strategies to simultaneously address distributional, income protection and employment objectives.

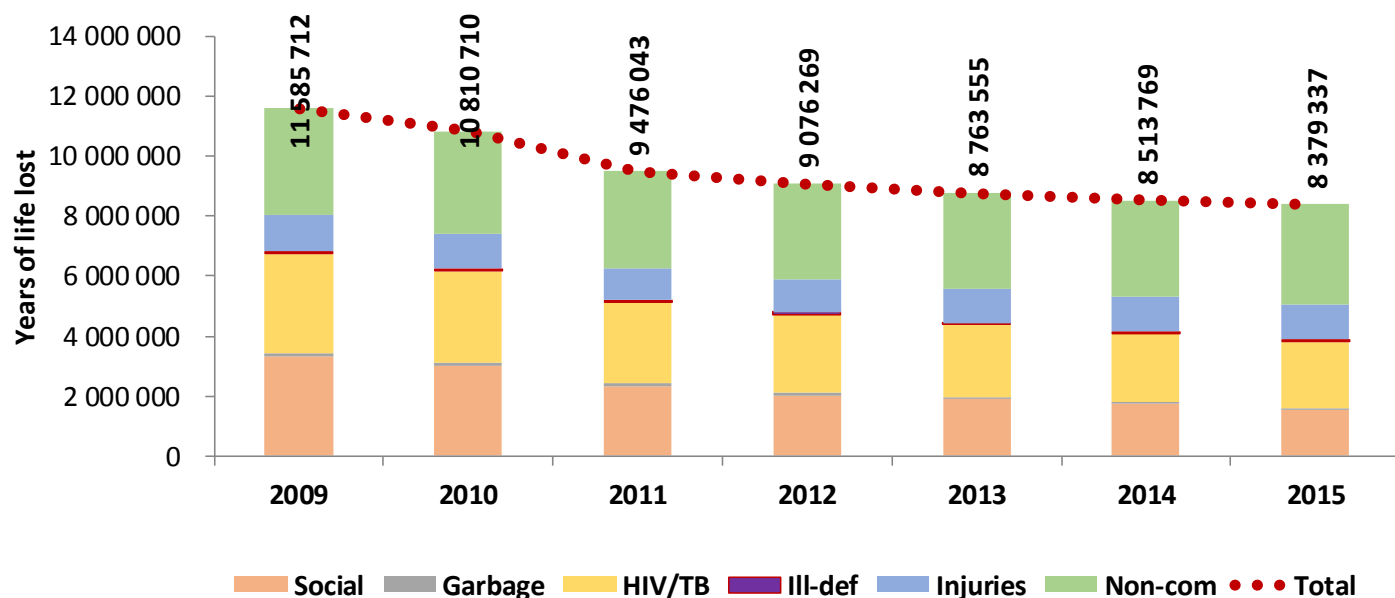
3.4 Healthcare

3.4.1 Overview

The South African health system is broadly universal in terms of coverage, but demonstrably weak in key areas of performance and fairness. These weaknesses are present in both the public (Dhai & Mahomed, 2018) and private sectors (Competition Commission, 2019). Concerns with the former include poor quality of care resulting from governance failures (van den Heever, 2019), and in the case of the latter, structural cost increases due to supplier induced demand that have reduced the affordability of cover for vulnerable income earners.

South Africa's burden of disease has been in decline over the period 2009 to 2015, largely due to the treatment programme for HIV and AIDS and Tuberculosis (TB) (Figure 8). However, is facing increases in the disease burden resulting from non-communicable diseases arising from lifestyle changes associated with increases in urbanisation (Groenewald, Bradshaw, Day, & Laubscher, 2017).

Figure 8: Burden of disease trends for South Africa from 2009 to 2015 reflected as years of life lost



Source: Based on data provided by the Health Systems Trust (Health Systems Trust, 2017)

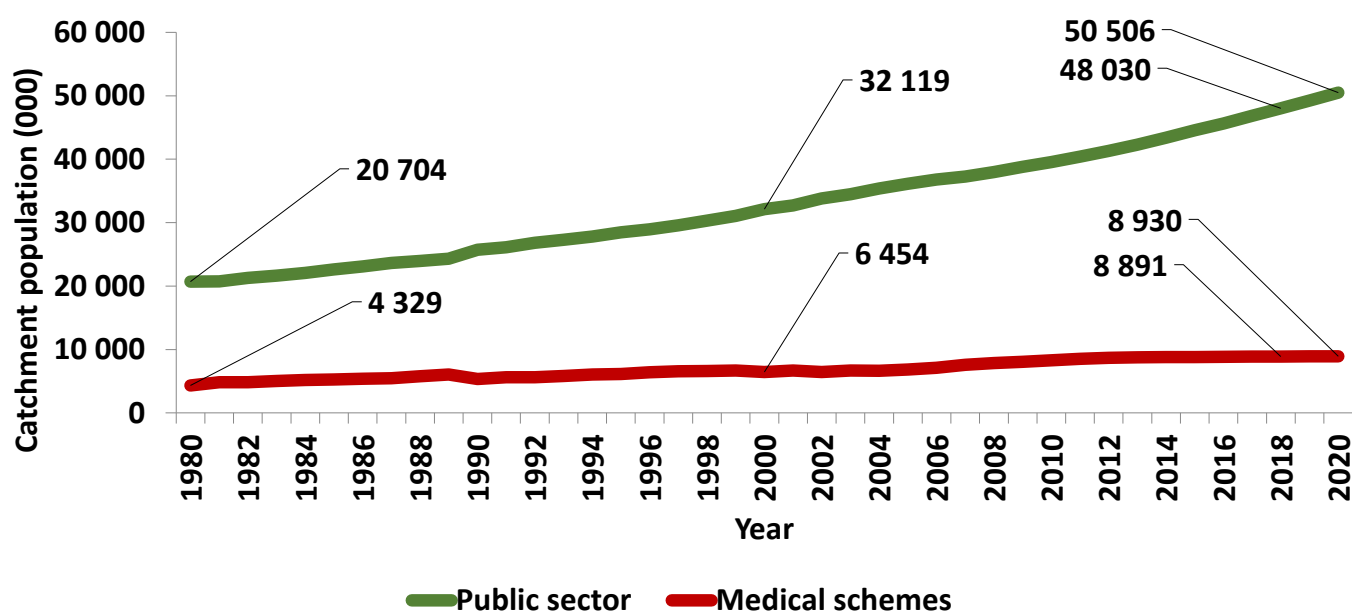
The South African health system is broadly divided by income into two major systems, a framework that predates the democratic transition in 1994. The stark inequalities in the distribution of incomes in South Africa have generated this division, as the general tax funded health system is effectively the default system for the vast majority of families without adequate incomes. Access to the public hospital system is also means tested and therefore excludes higher income groups, unless they have some form of health insurance (van den Heever, 2016).

The private system is financed through what could be termed a quasi-mandatory system of not for profit medical schemes, governed by legislation that mitigates, but does not altogether remove, discrimination on the basis of health status. Access to medical schemes is also facilitated through

a capped tax credit, which implicitly favours low income contributors (van den Heever, 2016). The tax credit framework is however insufficient as a contribution subsidy to materially address the income barriers to medical scheme access resulting from the underlying distribution of income.

The public sector catchment population in 2018 is roughly 48 million in comparison (Figure 9). The medical scheme catchment population in 2018 is roughly 8.8 million. It is unlikely that the medical scheme population will grow materially into the future due both to the weak economic growth rates (which affect employment and income changes) now exacerbated by COVID-19 and the entrenched income inequality. By 2020 the projected catchment populations will be around 50.5 million and 8.9 million for the public sector and medical schemes respectively.

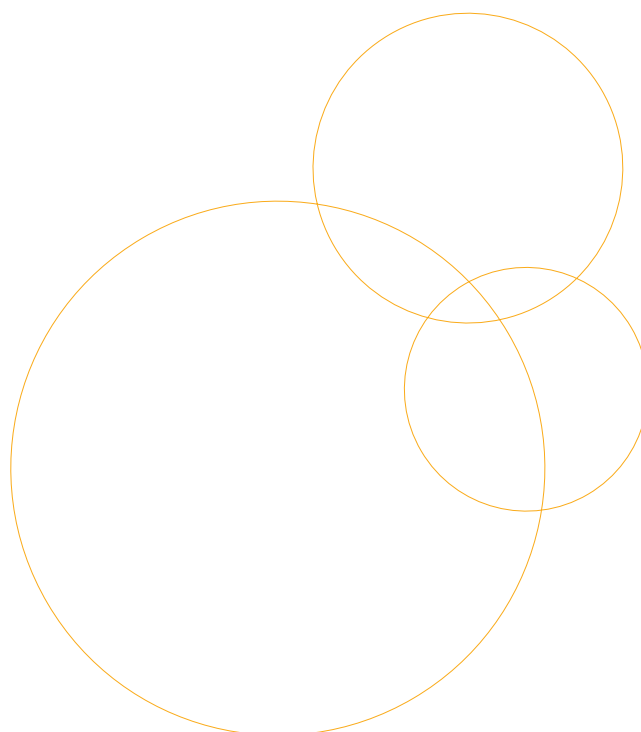
Figure 9: Catchment populations for the public health sector and the medical schemes system from 1980 projected to 2020



Source: Based on (Statistics South Africa, 2000 to 2018b; Wits School of Governance, 2000 to 2018c)

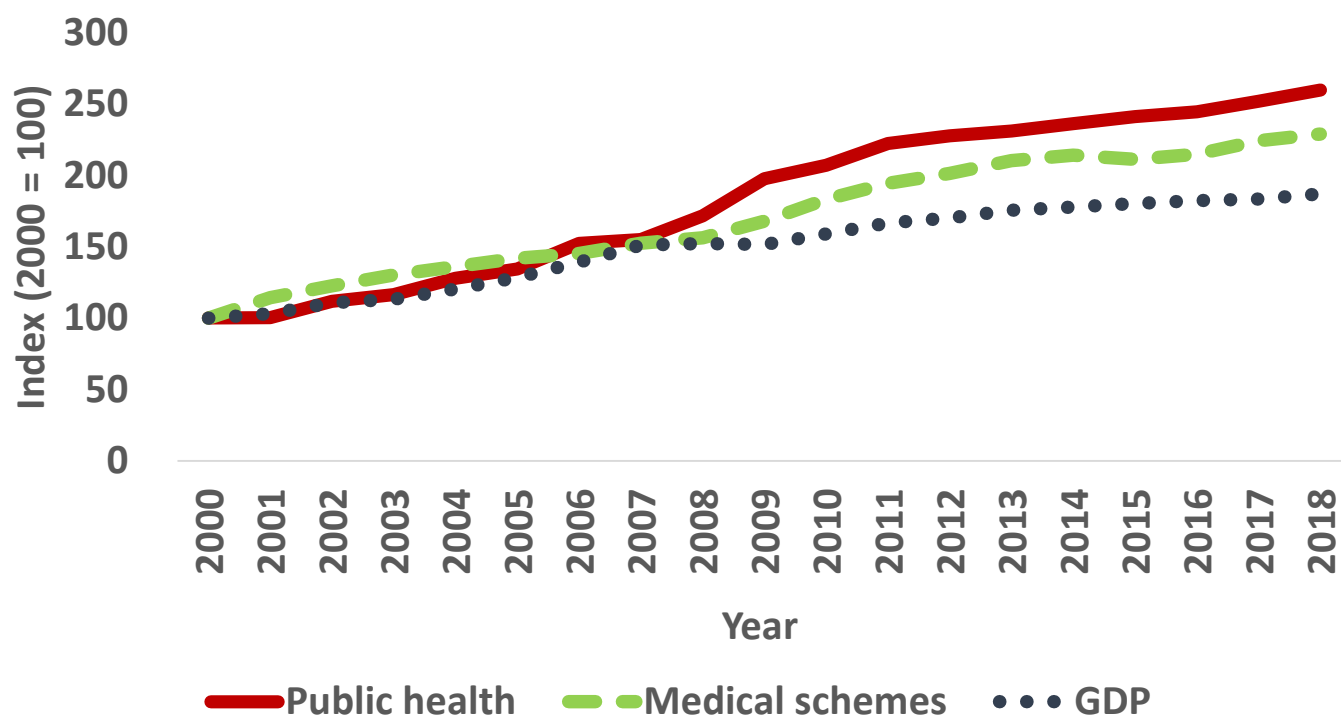
Expenditure trends over time reveal that the public sector grew more rapidly than medical schemes over the period 2000 to 2018, with a structural break in trends occurring around 2008 and 2009 (see Figure 10 for the index changes in public sector, medical schemes expenditure and GDP compared over the period 2000 to 2018). However, expenditure in both the public sector and medical schemes grew faster than GDP growth, again with the structural break occurring in the 2008 to 2009 period. In the case of the public sector, increased real expenditure.

Per capita expenditure is starkly different between the public health system and medical schemes, with differentials relatively stable over time (Figure 11). When consideration is given purely to the allocation of public resources, the tax credit is at a lower value than public sector per capita expenditure (see Figure 12), ensuring a degree of fairness.⁵ The different levels of expenditure are therefore entirely attributable to voluntary contributions in excess of the tax subsidy. It is an unresolved question as to whether this is generating unequal access, or is merely a manifestation of income inequality and excessive costs in the private sector.



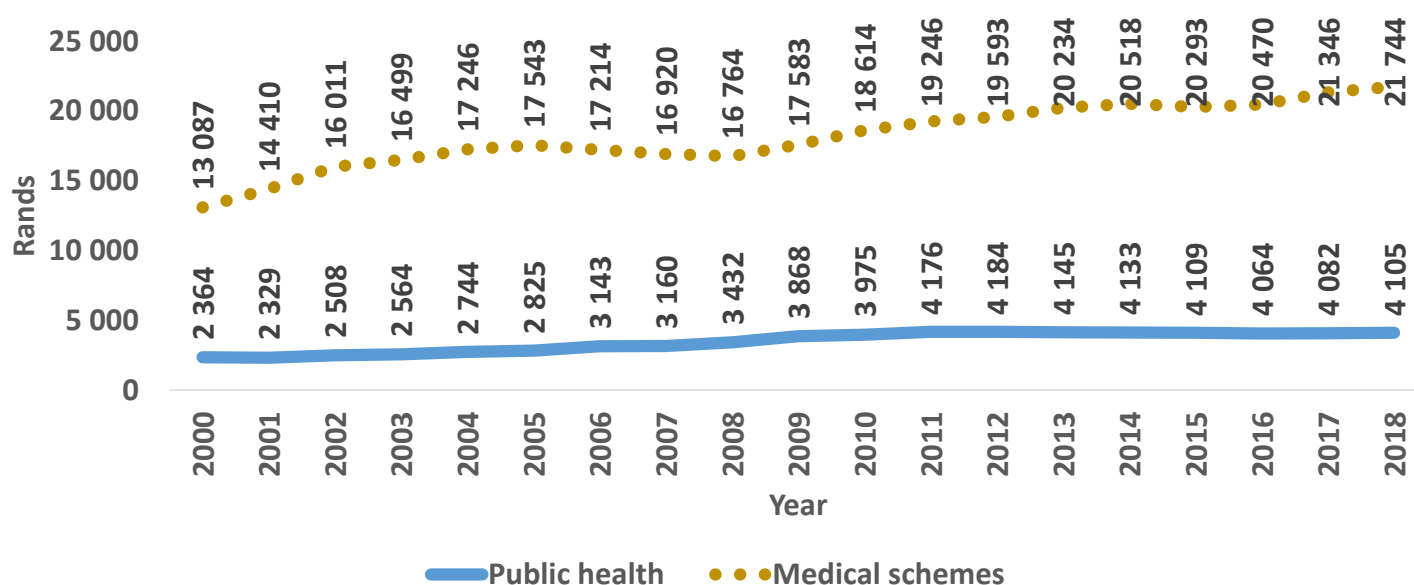
⁵It is worth noting that this is not the case with the tax subsidies allocated for private pension funds discussed later in this report.

Figure 10: National health system: Comparison of expenditures on public health and medical schemes compared to GDP from 2000 to 2018 (index: 2000 = 100)



Source: Based on (Wits School of Governance, 2000 to 2018c, 2000 to 2019)

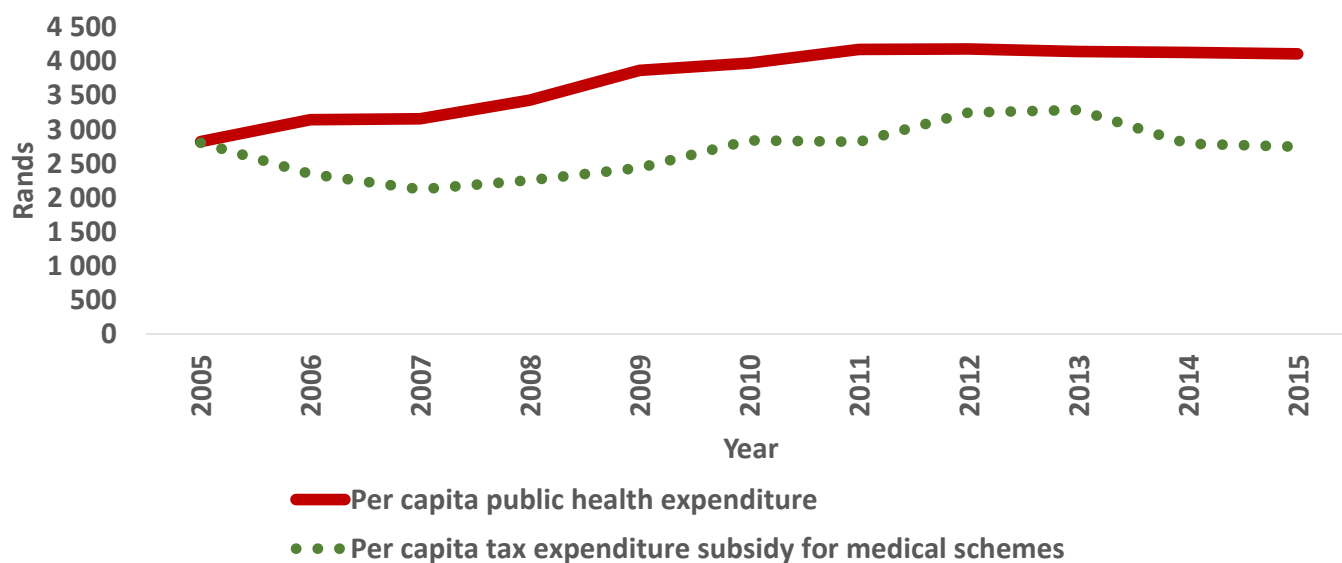
Figure 11: Per capita health expenditure for the public health* and medical scheme systems from 2000 to 2018 (2018 Rands)



*Expenditure by local government is not included.

Source: Based on (Statistics South Africa, 2000 to 2018b; Wits School of Governance, 2000 to 2018c, 2000 to 2019)

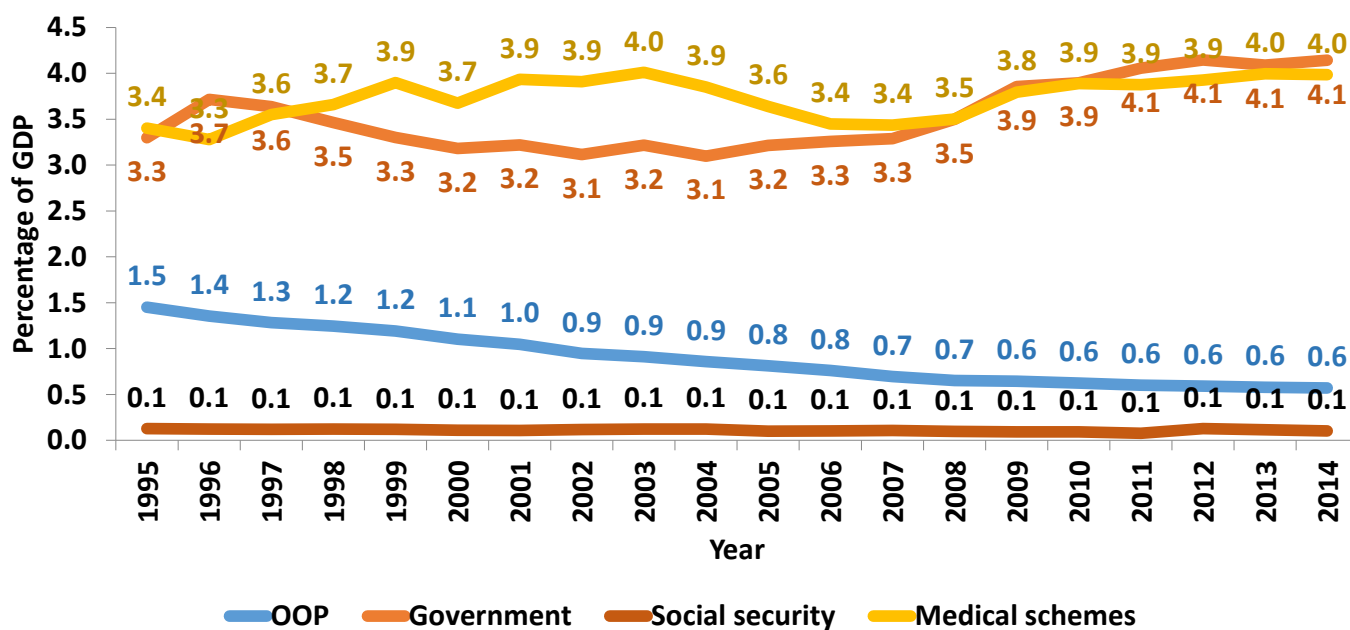
Figure 12: Per capita public health expenditure compared to the per capita value of the tax expenditure subsidy (TES) for medical schemes for the period 2005 to 2015 (2018 prices)



Source: Based on (Statistics South Africa, 2000 to 2018b; Wits School of Governance, 2000 to 2018c, 2000 to 2019)

A long-term trend analysis of South Africa's national health accounts (**Figure 13**), reports a relatively low level of Out Of Pocket (OOP) expenditure, as a standard indicator of technical compliance with universal health coverage. Out of pocket expenditure declined from 1.5% of GDP in 1994 to 0.6% in 2015. While this says little about the quality of health services provided, it is at least indicative of a reduced income barrier to accessing health services. However, it is important not to over attribute success to these indicators.

Figure 13: National health accounts for South Africa according to the World Health Organisation, with expenditure expressed as a percentage of GDP (%)



Source: Based on (World Health Organisation, 1995 to 2014).

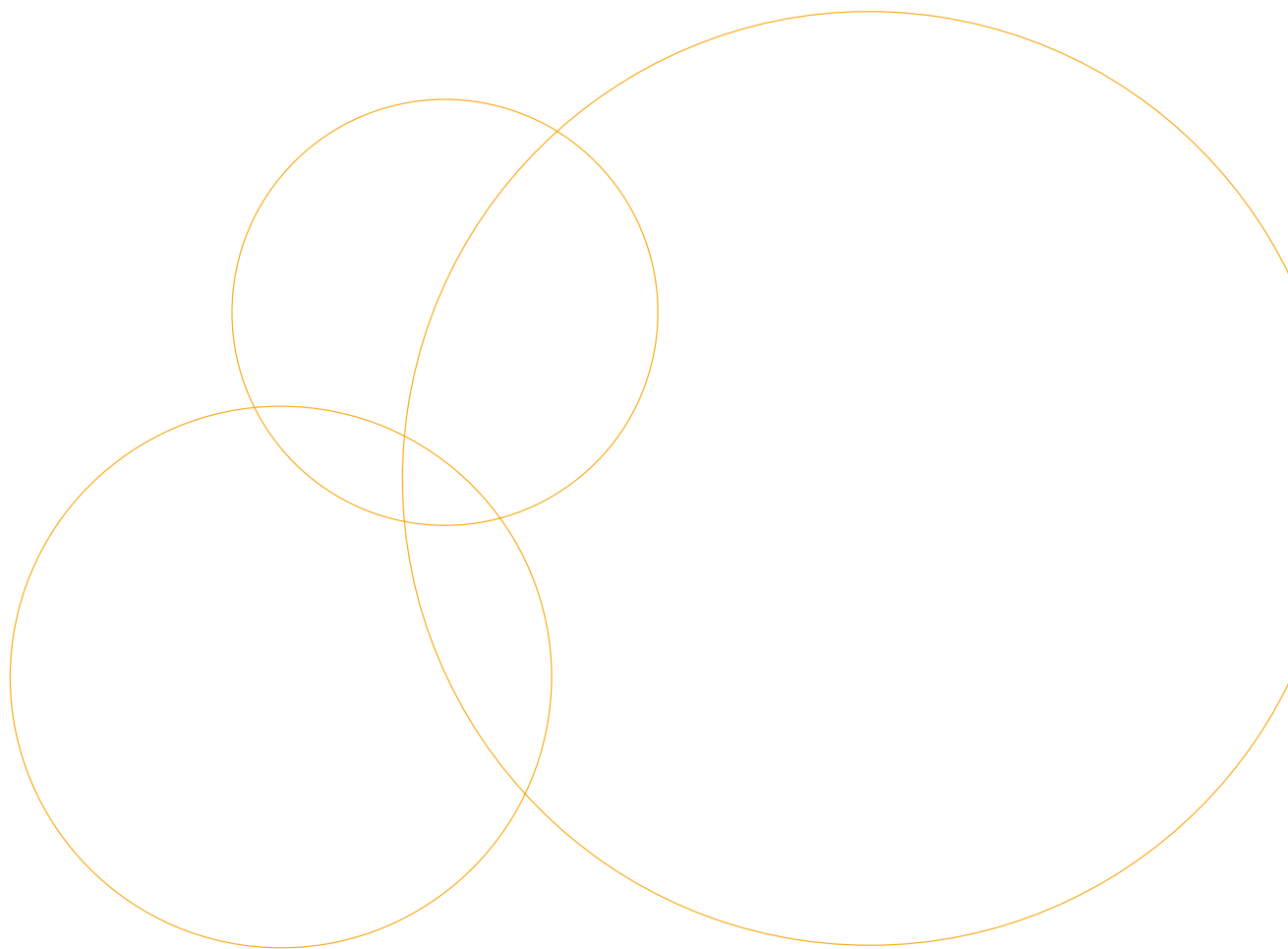
3.4.2 Key features of the public health system

The public health system is rendered at a provincial level in terms of the Constitution which allocates concurrent powers to both national government and provincial governments. The division of responsibility broadly sees national government deal with national frameworks, norms and standards and the regulation of aspects of the private sector, and provincial governments planning, regulating and rendering public health services. Local government has no Constitutional role in the provision of health services, but can and does, in the case of the large metropolitan governments, render services as an agent of provincial government.

The bulk of public health expenditure (R91 billion in 2018) goes on district health services, or what is broadly termed, primary (ambulatory)⁶ care (**Table 13**). Primary care services include clinic based services and district hospital services, all of which provide generalist or non-specialised care. The next largest category is Central Hospital services (R41 billion), which includes highly specialised and academic services. In reality, a fair amount

of non-specialised and general specialist services are also carried in these hospitals. Provincial hospitals, which include general specialisations (orthopaedics, obstetrics and gynaecology, general paediatrics) are the next largest category at R34 billion in 2018).

Over the period 2014/15 to 2018/19 the largest increases in expenditure have been in the National Department of Health (125.7%), Central Hospital Services (33.7%), National Health Laboratory Services (25.0%), District Health Services (17.6%). Emergency Medical Services however only saw a 10.2 increase. Facilities Management and Maintenance only saw a 1.5% real increase of the period, which is potentially a cause for concern. All programmes that had an increase below population growth over this period (10.7%), effectively faced a real decline in allocation. This would include Provincial Hospital Services (-2.2%), Emergency Medical Services (10.2%), Facilities Management and Maintenance (1.5%), and Health Sciences Training (-5.2%). The allocation for the Compensation of Employees was only slightly higher than population growth at 11.8%.



⁶This refers to patient-related care and is to be distinguished from population-based health functions such as environmental health services, including sanitation.

Table 13: Public health expenditure from 2014/15 to 2018/19 (R'million) (2018 prices)

	2014/15	2015/16	2016/17	2017/18	2018/19	% Increase 2014/15 to 18/19
Central hospital services	30 432	34 273	36 725	38 781	40 701	33.7
Provincial hospital services	35 402	35 510	33 048	33 896	34 636	-2.2
District health services	77 323	83 011	83 849	88 577	90 954	17.6
Emergency medical services	6 955	7 402	7 333	7 659	7 666	10.2
Facilities management and maintenance	9 236	9 776	9 477	9 316	9 372	1.5
Health science and training	5 507	5 359	5 924	5 358	5 219	-5.2
National Health Laboratory Service	6 026	6 463	7 207	7 421	7 542	25.1
National Department of Health	2 828	2 863	4 960	5 334	6 383	125.7
Other	6 470	3 627	1 191	5 158	6 225	-3.8
Total	180 179	188 285	189 713	201 501	208 699	15.8
Compensation of employees	115 898	118 352	120 167	127 015	129 620	11.8
Goods and services	48 546	52 670	52 416	56 447	61 019	25.7
Transfers and subsidies	6 445	6 668	6 782	6 906	7 440	15.4
Buildings and other fixed structures	6 347	7 117	6 437	6 746	6 361	0.2
Machinery and equipment	2 943	3 479	3 911	4 387	4 259	44.7
Total	180 179	188 285	189 713	201 501	208 699	15.8
Public sector population	43 392	44 555	45 648	46 832	48 030	10.7

Source: Based on (National Treasury, 2018)

The quality of care provided in the public health system can be assessed using a proxy health outcome indicator, in this case maternal mortality ratios per 100,000 live births (**Table 14**). Against a benchmark for peer countries to South Africa of 42, South Africa's provinces perform poorly, apart from the Western Cape.

Although South Africa as a whole demonstrates a slight improvement in performance from 150.2 in 2005 to 135.0 in 2017, it remains a multiple of the benchmark. Despite the improvement, four provinces actually deteriorated over the period, while the remainder improved merely from very poor to poor outcomes.

While these results specifically refer to maternal health services, they can also be used as a proxy indicator for the quality of management for all health services (van den Heever, 2019). Overall, these results suggest the following:

- South Africa's public health services are poorly managed;
- There is a structural difference in performance between the Western Cape health department and all the other provincial health services, despite receiving equivalent financial allocations; and
- South Africa compares poorly in terms of performance to countries of a similar level of economic development and similar public health allocations.

The quality of public health performance strongly points to failures in the governance framework rather than inadequate resources, which have been improving over the period in question. Health systems typically resolve such problems through the implementation of strong localised governance regimes, decentralisation of decision-making and the removal of political appointees from administrations, organisations and facilities responsible for delivery.

Table 14: Provincial MMRs for provinces and South Africa compared to a Benchmark MMR

Province	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Eastern Cape	140.1	131.6	138.7	180.4	215.2	197.0	164.7	153.7	172.7	174.2	133.4	144.1	142.1
Free State	353.8	334.1	313.1	267.0	350.9	263.5	246.8	149.3	185.1	203.3	162.8	172.7	154.9
Gauteng	136.0	147.6	111.9	136.0	160.2	159.2	136.4	163.7	115.0	136.3	139.0	125.1	128.5
KwaZulu-Natal	152.6	187.9	181.6	183.8	194.2	208.7	197.6	170.2	146.5	140.9	125.7	124.6	135.7
Limpopo	150.5	167.6	182.9	176.6	160.4	166.7	196.4	192.9	201.2	169.8	168.1	170.7	151.9
Mpumalanga	114.5	151.1	126.7	179.8	159.4	218.6	199.7	177.4	150.3	119.5	136.5	148.5	156.0
North West	174.2	144.2	121.2	161.7	279.5	256.1	173.0	164.8	168.5	200.9	168.0	152.0	150.2
Northern Cape	291.4	307.9	301.8	274.4	251.8	267.4	193.6	166.5	158.3	120.7	160.5	114.5	136.8
Western Cape	67.7	60.1	112.0	61.8	113.1	88.0	62.6	81.8	83.9	66.5	70.6	75.8	84.0
South Africa	150.2	161.7	158.5	164.8	188.9	186.2	167.0	160.2	147.7	144.6	135.5	135.3	135.0
Benchmark	42.0	42.0	42.0	42.0	42.0	42.0	42.0	42.0	42.0	42.0	42.0	42.0	42.0

Sources: South African data (National Department of Health, 2018, p. 4); Benchmark is based on the average performance of peer countries to South Africa based on (World Health Organisation, 2015, pp. 51-56)

3.4.3 The private health system

The private health system is dominated from a financing perspective by the system of regulated medical schemes. Other forms of insurance and (to date) OOP spending have been peripheral to medical schemes. Medical schemes, unlike other forms of insurance, are required by law to offer certain minimum levels of guaranteed cover, specifically for catastrophic benefits,⁷ and are prohibited from discriminating in various explicit ways against individuals at a higher risk of claiming benefits (typically referred to as “bad risks”).

The medical scheme system is regulated in such a way that open schemes, which historically offered coverage to multiple employers (subject to risk rated premiums), from 2000 were required

to accept individuals at the same contribution rates offered to groups. Furthermore, these open schemes could not differentiate their contributions according to the risk of individuals, groups or employers. This framework prevented the medical scheme system from dumping patients onto the public health system, as it could not exclude bad risks, and/or exclude cover from bad risks, and/or make them pay more for their cover relative to good risks.

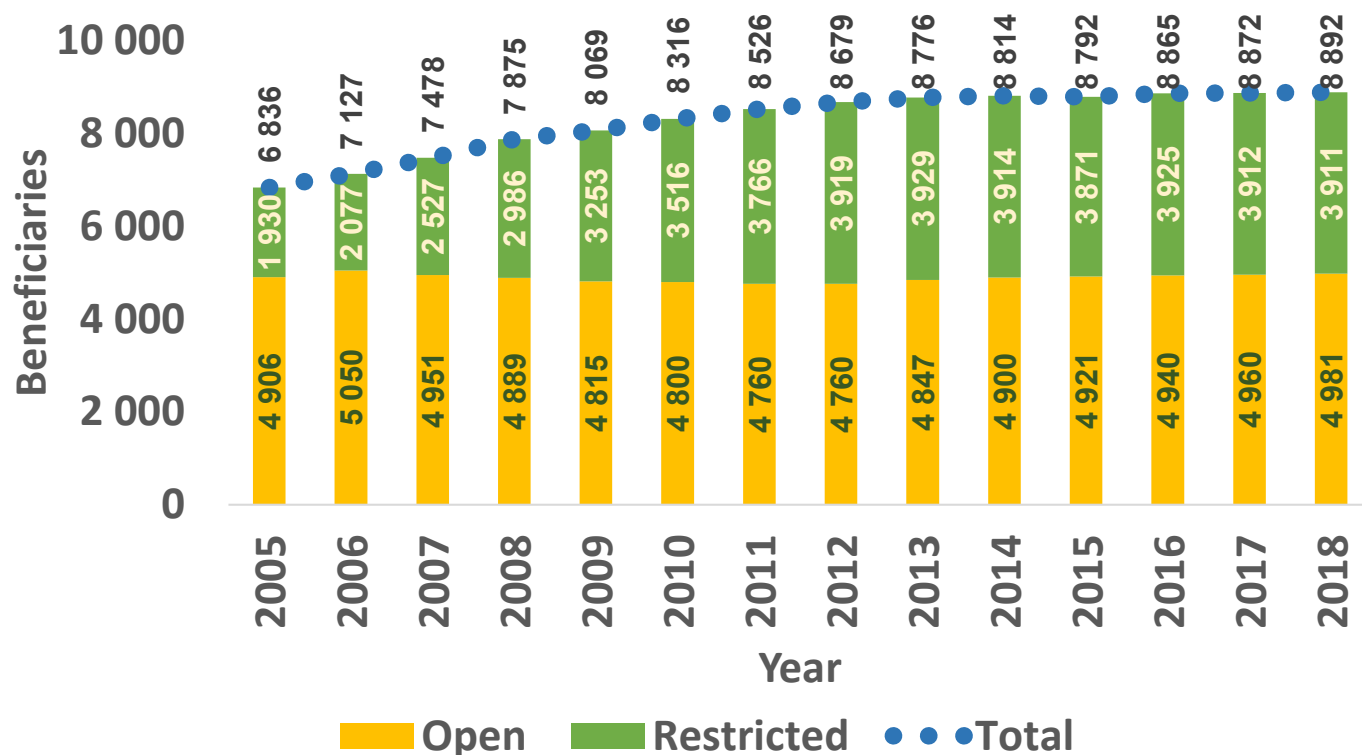
Over the period 2005 to 2018 (**Figure 14**), medical scheme beneficiary numbers grew initially by around 2 million to 2014, and then stagnated. The reasons for the growth and stagnation are potentially attributable to a combination of economic growth and the introduction of the Government Employees Medical Scheme (GEMS), a restricted membership scheme in

2005. Restricted schemes are permitted to limit membership to an employer or industry, provided they do not use this criteria to discriminate against any person on the basis of their health status. The restricted scheme portion of medical scheme beneficiaries consequently grew until 2014, before flattening out.

The influence of economic growth is suggested with reference to the number of tax payers in comparison to medical scheme principal members (i.e. the contributor) (**Figure 15**). The decline in the number of tax payers from 2012 arises from poor economic growth, and potentially explains the general stagnation in medical scheme beneficiaries, after accounting for the strong GEMS effect which lasted until 2014 and buffers any immediate decline due to economic factors.

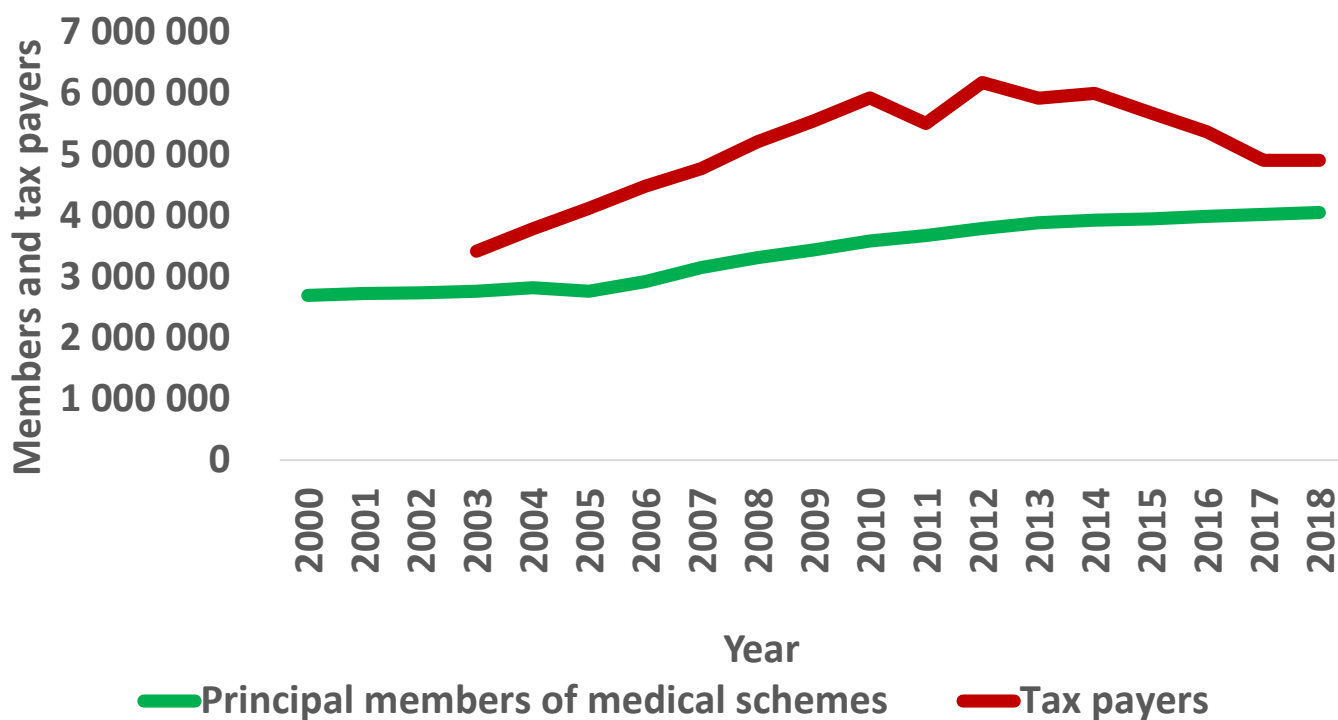
⁷This refers to expensive major medical interventions that pose a threat to life and limb.

Figure 14: Medical scheme beneficiaries by scheme type from 2005 to 2018



Source: (Wits School of Governance, 2000 to 2018c)

Figure 15: Principal members of medical schemes compared to the number of tax payers from 2000 to 2018 (tax payer data only provided from 2003)

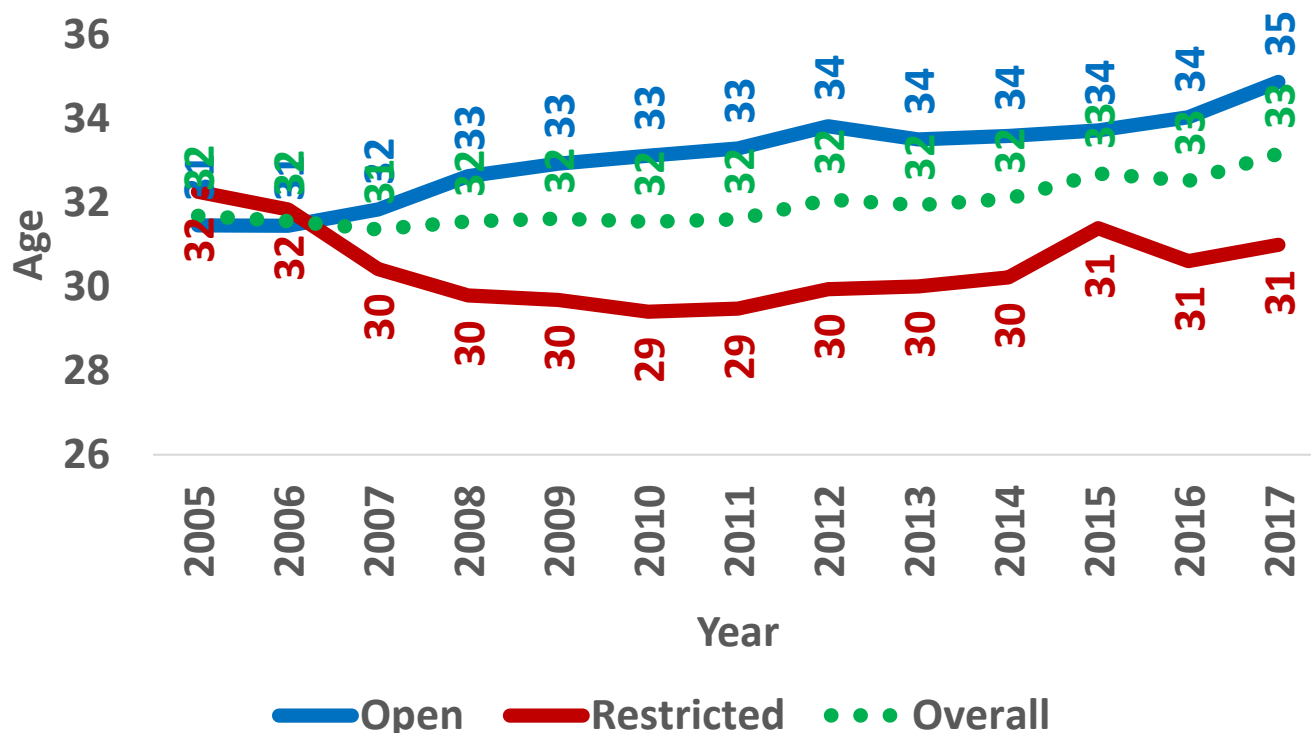


Source: Based on (Wits School of Governance, 2000 to 2018c, 2000 to 2019)

The average age of medical scheme beneficiaries (principal members and dependents) has largely remained constant from 2005 to 2017 at around 32 to 33 (**Figure 16**), although there are structural differences between open and restricted schemes. This differential, with a much lower average age for restricted schemes, is largely a consequence of GEMS taking on only government employees

and leaving out the pensioners (who were largely left on open schemes). On the whole, the medical schemes system does not face a serious demographic problem as yet. This may however be a consequence of many income earners dropping their medical scheme membership in retirement to inadequate post-retirement incomes.

Figure 16: Average beneficiary age by scheme type from 2005 to 2017

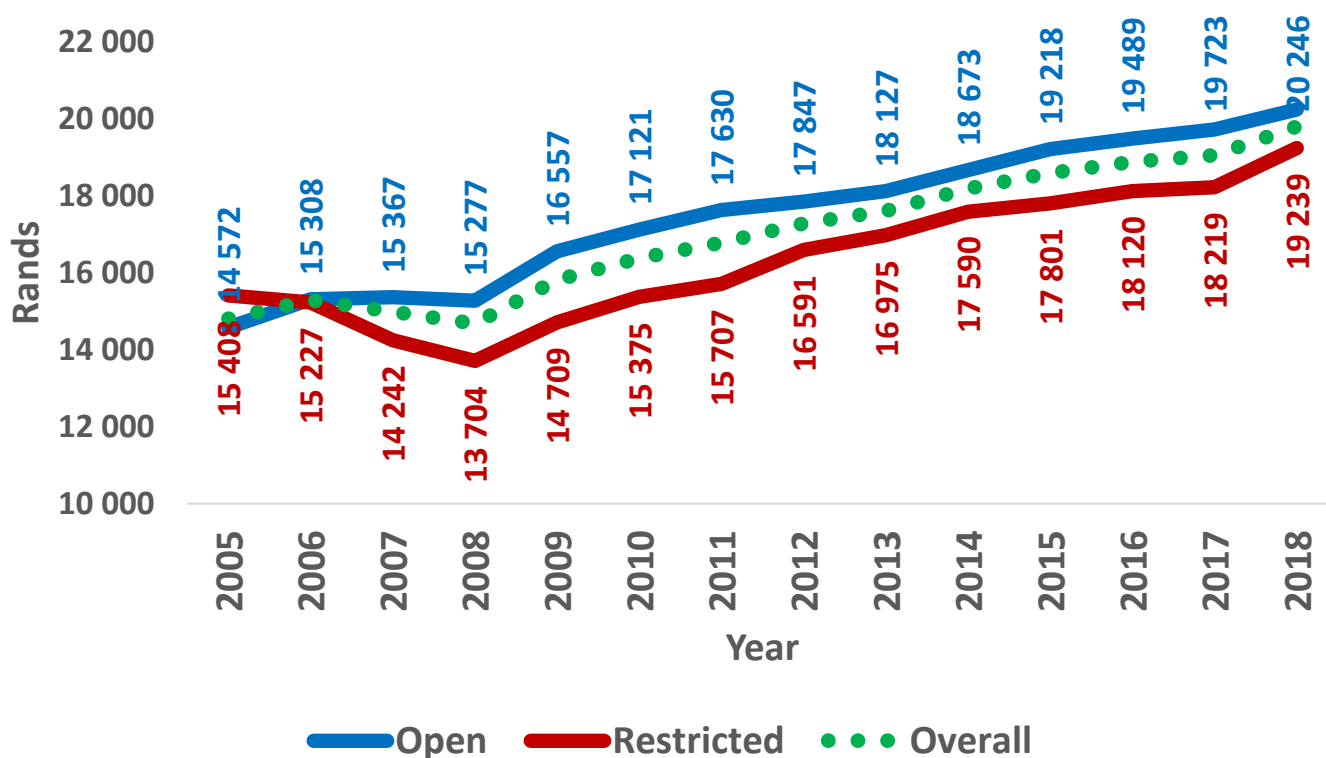


Source: Based on (Wits School of Governance, 2000 to 2018c)

The cost of medical scheme claims represents a significant medium to long term threat to the social protection offered by medical schemes. This was strongly argued in the recently published Health Market Inquiry (HMI) carried out by the Competition Commission (Competition Commission, 2019). There has been significant real increases in the cost of medical scheme claims for an extended period.

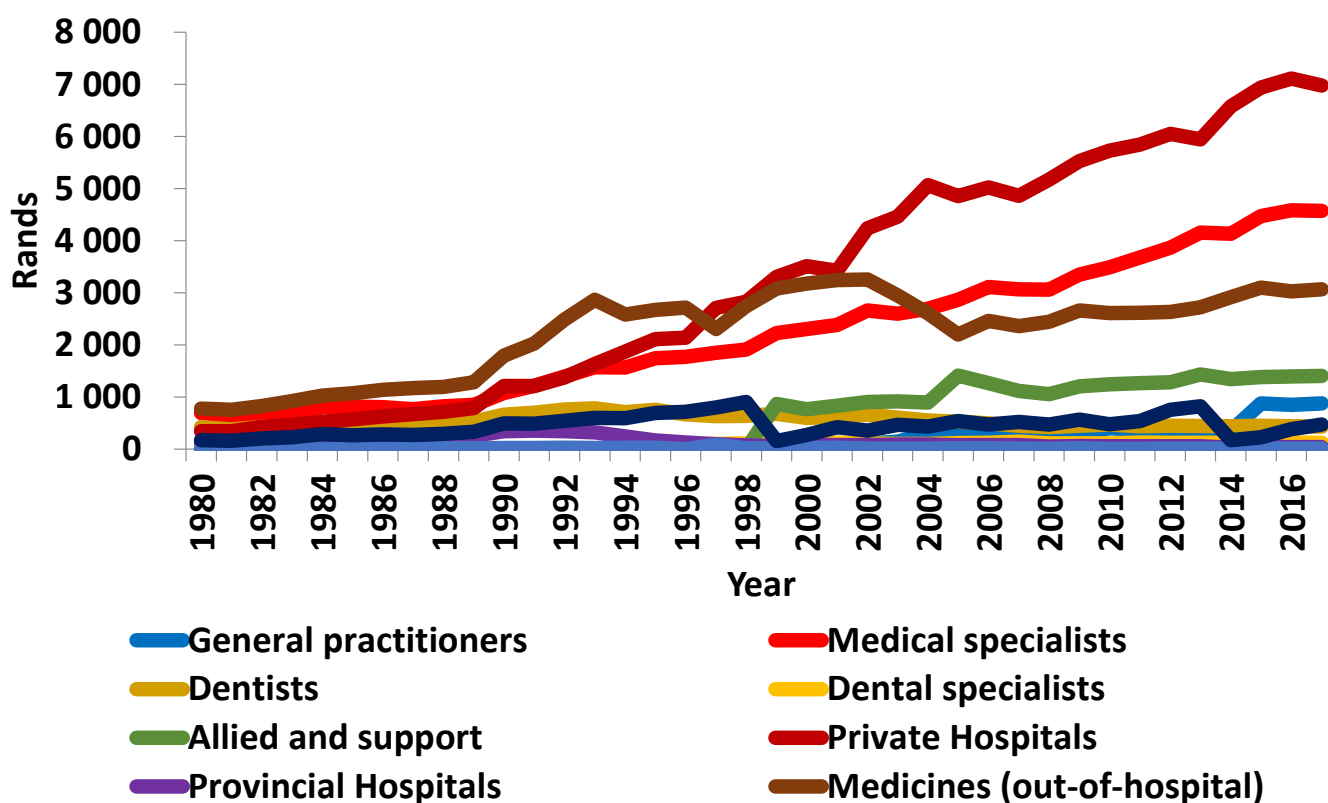
The real claims cost per average beneficiary per annum for open schemes increased by 38.9 from 2005 to 2018, and by 24.9 for restricted schemes (derived from the results in **Figure 17**). The overall increase per average beneficiary was 33.7. The main drivers of these increases are private hospital services, medical specialists and medicines (**Figure 18**), a trend that is detectable from the early 1980s.

Figure 17: Gross medical scheme claims per average beneficiary per annum (Rands) (2018 prices)



Source: Based on (Statistics South Africa, 2000 to 2019; Wits School of Governance, 2000 to 2018c)

Figure 18: Medical scheme claims expenditure by type of claim per beneficiary per annum from 1980 to 2017 (Rands) (2018 prices)

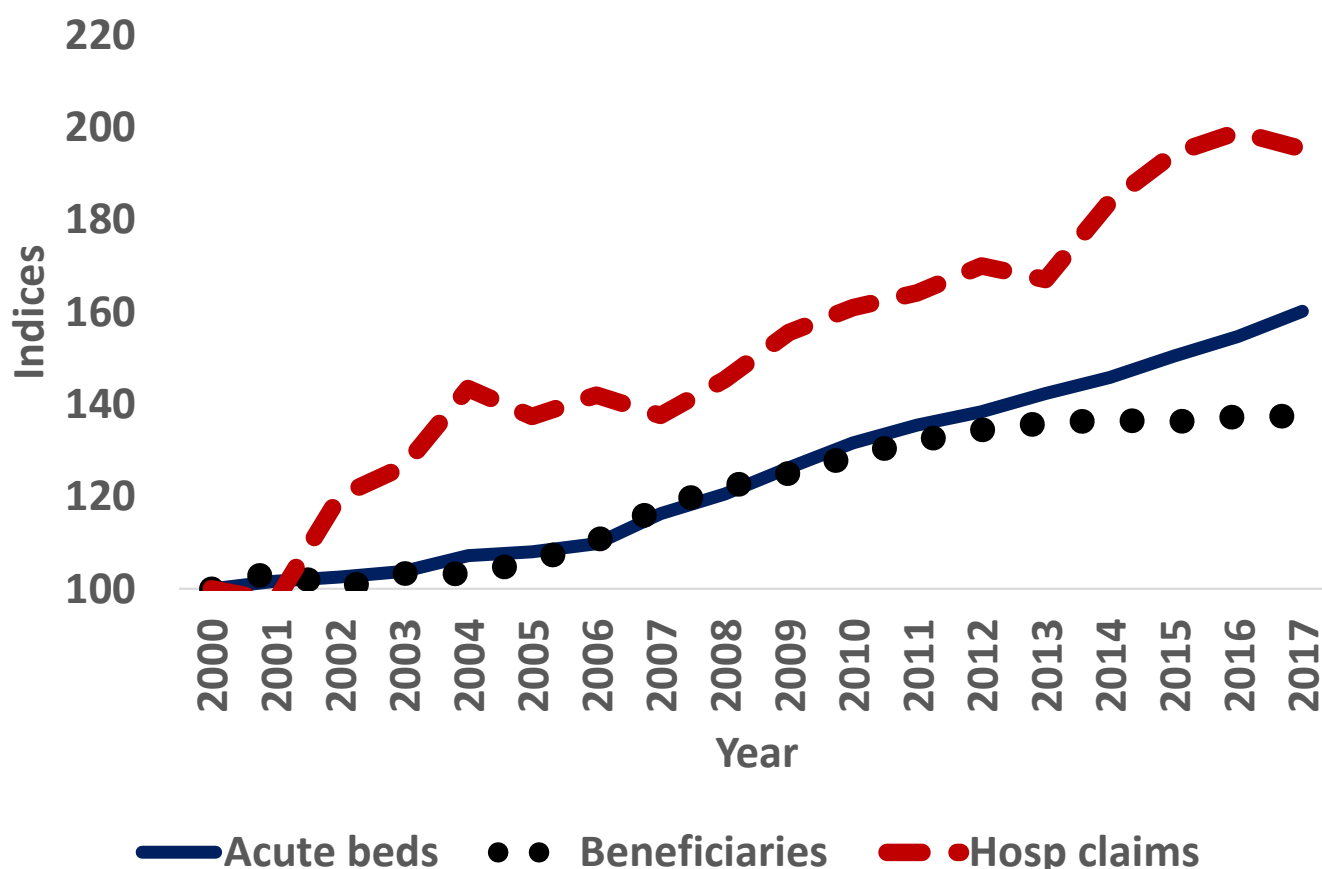


Source: Based on (Statistics South Africa, 2000 to 2019; Wits School of Governance, 2000 to 2018c)

According to the HMI, a significant driver of medical scheme costs is the fee for service mechanism of payment, which drives supplier induced demand (Competition Commission, 2019). This is where suppliers of service, through their influence over the demand decisions of patients, expand demand merely by expanding the supply of services. This is strongly suggested in Figure 19 where indices of

change for the supply of hospital beds is compared to hospital claims (noting that claims incorporate a combination of price and demand and therefore won't exactly match supply). This shows a steady increase in hospital beds (from a starting point of significant over supply) compared to medical scheme beneficiaries, a trend which continues even when beneficiary numbers stagnate after 2012.

Figure 19: Private hospital indicators: Index value changes for all beds, and hospital claims per beneficiary per annum compared to medical scheme beneficiary changes from 2000 to 2017



Source: Based on (van den Heever, 2000 to 2017; Wits School of Governance, 2000 to 2018c)

To address the systemic failures of the private health system, the HMI has offered detailed findings and recommendations which Government needs to consider if it wishes to properly protect universal health coverage in South Africa as summarised in Box 2. These recommendations deepen similar recommendations from various committees of inquiry and government processes which were never properly implemented in the past (Armstrong et al., 2004; Department of Health, 1995; Ministerial Task Team on Social Health Insurance, 2005; National Department of Health, 1997a, 1997b, 2002; Taylor Committee, 2002)

Box 2: Findings and recommendations by the Health Market Inquiry towards universal health coverage in South Africa

The Health Market Inquiry found that the private health system faced multiple market failures on both the funder and supply sides of the private health system. It also found that weaknesses in the public health system prevented it from acting as a competitive constraint on excessive cost increases by suppliers of services. Inter alia, it recommended a package of reforms which were necessary to establish an institutional framework within which the private health system would be sustainable and more cost efficient.

This included the following: the implementation of a risk-adjustment and social reinsurance scheme to ensure equitable risk sharing and to tie in with any subsidy framework established at a point where National Health Insurance proposals are finalised; a multilateral negotiation forum for the determination of fee-for-service tariffs; a supply-side regulator for health facilities; and an information regulator to ensure that health system users have access to performance information regarding the services and funders they choose to use.

(Health Market Inquiry (South Africa), 2019)

3.5 Old age protection

3.5.1 Strategic overview

Old age protection in South Africa is broadly divided into a non-contributory means tested flat-rate⁸ benefit for those without adequate incomes and private voluntary and quasi-voluntary contributory protection offered through the private sector. In many ways this mirrors the configuration of healthcare protection offered in South Africa.

The social assistance benefit is offered from the age of 60 and is financed from general tax revenue. Private arrangements are either offered on a group basis, via employers or industry arrangements, and/or on an individual basis via so-called retirement annuities.

Private contributory coverage is precarious and depends on the employment record of the individual concerned and benefits could be depleted through movements between different employers, early withdrawals of benefits and the high costs of products and general ignorance of entitlements. Private retirement contributions are also highly subsidised by government through various tax expenditure subsidies (TES) (discussed below in the section dealing with tax subsidies).

The purpose of these subsidies is to incentivise tax paying income earners to participate in private retirement arrangements.⁹ The value of these subsidies appears to exceed the value of the social assistance benefit. This inconsistency is discussed further below.

In the case of contributory private schemes, benefits and retirement ages are set by the scheme rules, the provisions of any policy purchased, the employer. Many of these decisions are affected by the tax framework, which stipulates the age at which withdrawals will not incur tax penalties. Scheme, product and advice arrangements are therefore heavily influenced by the tax rules and are likely to significantly influence commercial conduct.

A further feature of the private old age protection space is the discretion employers have, to stipulate a date of retirement, often 65. In many countries such mandatory retirement provisions are disallowed, and are questioned by some as unconstitutional in South Africa (see for instance Labuschagne, Bekker & van Eck, 2004) on the basis of unfair discrimination on the basis of age.

Given that most people remain productive at the age of 65, rationally designed social security provisions in many countries separate out the issues of retirement from access to a pension.

⁸This refers to a benefit that involves benefit that is of the same value for all entitles to it, subject to adjustments for the means test.

⁹The specific rationale is unclear and has been reported differently over time. Initially National Treasury indicated that the subsidy was to avoid the expense associated with people becoming dependent on the Old Age grant.

This is because life expectancy is increasing in all countries and affecting the viability of earnings-related social pensions. However, even where life expectancy is low, a person of age 65, and well into the 70s, is generally healthy, has significant work experience and is perfectly capable of remaining productively employed.

Early retirement ages therefore places significant pressure on individuals to contribute excessively to retirement arrangements to cater for a significant period of their life when they become effectively unemployable, irrespective of their health status. Within the South African context, significant tax revenue is potentially lost subsidising these very early retirement ages in addition to the resulting lost economic activity.

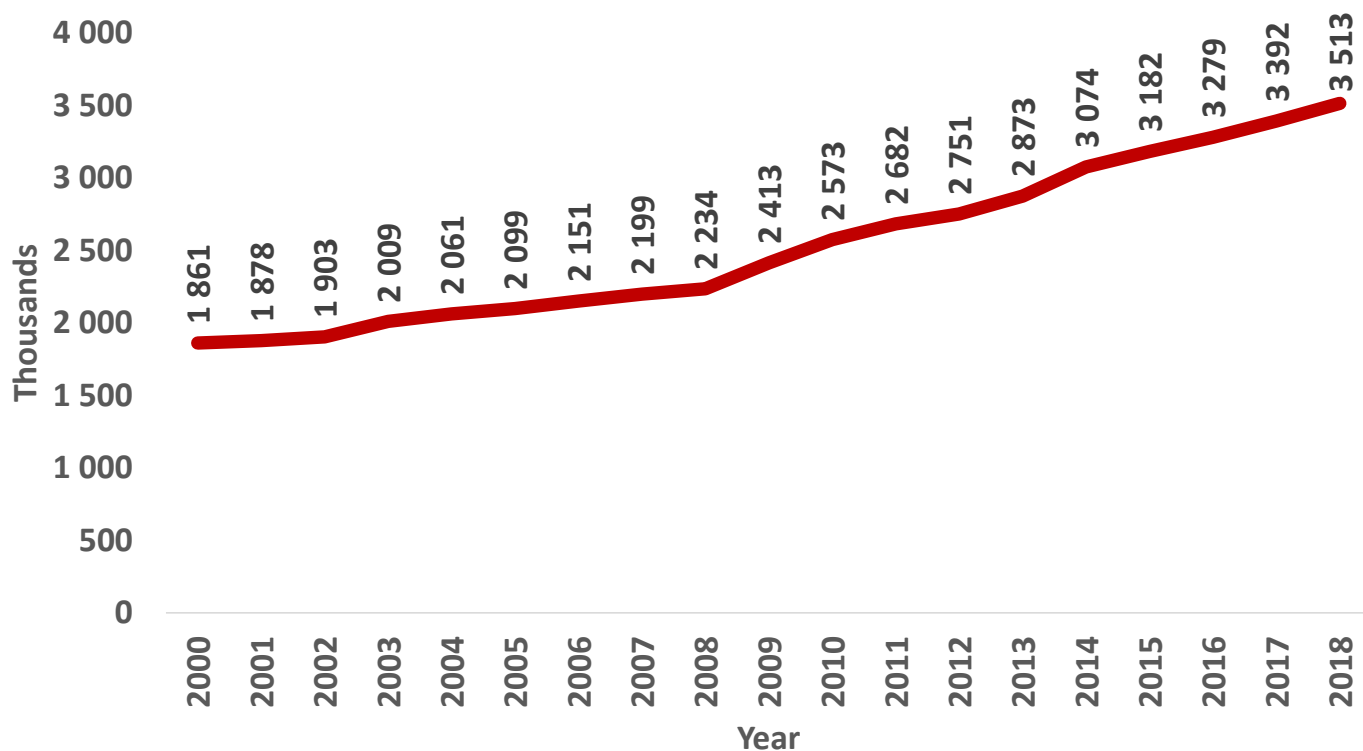
3.5.2 Non-contributory social assistance for old age

Social assistance for old age pre-dates the democratic transition of 1994. Around 1994, two important changes were introduced. The first,

which occurred in the period leading up to 1994 and involved the elimination of race-based grant values, which gave Whites the highest and Black/Africans the lowest values. The second, involved the establishment of a common age qualification for eligibility of 60 for both males and females, whereas in the past males only qualified at 65. A further proposal, currently under review, is to remove the means test, thereby rendering the grant universal.

In 2018, around 3.5 million individuals accessed the grant. Up from 1.9 million in 2000 (**Figure 20**). This represents an average annual growth rate of 3.6%, which is in excess of the overall population growth rate of roughly 2.2% over the same period. This is partially attributable to the altered eligibility, which occurred during this period, as well as greater numbers who have inadequate earnings in retirement, even when they have been employed for much of their working life.

Figure 20: Social assistance old age pension beneficiaries from 2000 to 2018



Source: (Wits School of Governance, 2000 to 2019)

While real increases in the means test values may have also contributed to improved eligibility, this would only have been the case were these improvements been greater than GDP growth, and not merely faster than the CPI (or general inflation). Over the period 2000 to 2018, however, the means test values improved by only 10.9% and 12.6% in real terms using the CPI for the asset and income thresholds respectively (**Table 15**). When using the GDP index, real values actually declined by 40.7 and 39.8 for the asset and income tests respectively.

Grant values reflect similar real changes to the means tests, with a real increase based on CPI of only 12.4% for the entire period from 2000 to 2018 (**Table 16**). This represents a 39.9% real decrease in value when using the GDP index.

Consequently all expenditure growth (175.4% in real terms based on the CPI and 47.2% based on the GDP index as indicated in **Table 16**) is based on increased beneficiary take up rather than shifts in the means test or increased grant values.

Table 15: Real changes in the means test for the social assistance old age grant from 2000 to 2018 (2018 prices using the CPI and GDP index)

		2000	2009	2018	% Change from 2000 to 2018
Real changes based on the CPI (2018 prices)					
Asset threshold					
Old age & Old age over 75's	Single person	1 006 181	1 076 777	1 115 400	10.9
	Spousal relationship	2 012 363	2 153 555	2 230 800	10.9
	Income threshold				
	Single person	69 366	74 232	78 120	12.6
	Spousal relationship	138 731	148 465	156 240	12.6
Real changes based on the GDP index (2018 prices)					
Asset threshold					
Old age & Old age over 75's	Single person	1 882 321	1 328 585	1 115 400	-40.7
	Spousal relationship	3 764 642	2 657 170	2 230 800	-40.7
	Income threshold				
	Single person	129 766	91 592	78 120	-39.8
	Spousal relationship	259 532	183 184	156 240	-39.8

Source: Based on (Department of Social Development, 2020; Statistics South Africa, 2000 to 2018a, 2000 to 2019)

Table 16: Non-contributory old age social assistance (all financial values in 2018 prices)

Grant	2000	2009	2018	% Change 2000 to 2018	% Change 2009 to 2018
Real values based on CPI					
Expenditure (R'million)	25 611	51 055	70 531	175.4	38.1
Grant value (Rands)	1 508	1 624	1 695	12.4	4.4
Real values based on GDP index					
Expenditure (R'million)	47 911	62 995	70 531	47.2	12.0
Grant value (Rands)	2 822	2 003	1 695	-39.9	-15.4
Beneficiaries	1 861	2 413	3 513	88.8	45.6

Source: Based on (Statistics South Africa, 2000 to 2018a, 2000 to 2019; Wits School of Governance, 2000 to 2019)

Not inconsistent with other publicly offered social security regimes, social assistance for old age has not been significantly adjusted over the period 2000 to 2018, apart from age equalisation (which was forced on Government by the courts (Pretoria High Court, 2007)). The Taylor Committee recommended in 2002 that the social assistance old age grant be made universal through the removal of the means test as a more efficient approach to targeting. It is however unclear when this is to occur. The continued delay perpetuates unfairness in the application of the means test as well as inefficiencies in its administration.

3.5.3 Private coverage

There are a number of scheme types available to income earners to access contributory earnings-related pensions. Broadly speaking these can be divided into group schemes of various types, which are accessed through an employer or industry arrangements (see Box 3), and individual products which underwrite applicants for the insurance/risk-related benefits. Individual products (sometimes referred to as deferred annuities) are not reported on here due to the poor availability of relevant statistics.

Box 3: Group pension scheme types

Underwritten Funds (UWF): Funds operating exclusively by means of insurance policies issued by registered insurers in South Africa. The only assets of this type of fund are policies of insurance. Contributions are paid directly to the insurer and the insurer then undertakes to pay benefits as and when they become payable by the fund. The fund's liability to the member is limited to the amount payable in terms of the fund policy.

Privately Administered Funds (PAF): This is a fund which operates its own bank account and pays benefits in terms of its rules from the assets of the fund.

Government Employees Pension Fund (GEPF): This is the scheme for public sector employees established in terms of dedicated legislation (Government Employees Pension Law 21 of 1996, as amended, which is referred to as the GEP Law) and is administered by the Government Pensions Administration Agency (GPAA).

Public Enterprise Funds: These are dedicated retirement arrangements for certain large parastatals. Given their size, they are reported on separately and include the Transnet Fund, Telkom Pension Fund and Post Office Pension Fund.

Bargaining Council Funds (BCF): These are funds established in terms of a collective agreement between one or more trade unions and one or more employers' associations, to which the employees of the employers who are members of the association are required to belong in terms of that collective agreement. In terms of the Labour Relations Act, if the unions between them represent, and the employers between them employ, more than 50 of the employees employed in a defined sector, the Minister of Labour may make the collective agreement binding even on those employees employed in the sector who are not members of the union(s) and those employers conducting business in the sector who are not members of the employers' organisation(s).

Foreign Funds: These are non-domestic pension funds which provide information to the Financial Sector Conduct Authority (FSCA). In 2016, only one fund was reported in official statistics.

Umbrella Funds: Also known as a multi-employer funds, are funds to which employees of a number of unrelated employers belong. The members of the board of the fund are usually appointed by the Fund's sponsor or creator (usually a fund administrator, insurer, bargaining council or union) rather than by the members and their employers. The rates at which contributions are made in respect of members employed by specific employers and the benefits to which such members are entitled may be captured in what are known as 'special rules' which form annexures to the main body of rules that provide for the governance, operation and management of the Fund. This type of Fund includes union funds, BCFs, PAFs and UWFs described above.

Source: (Financial Services Board, 2000-2017)

As group-related pension schemes offer a combination of risk benefits, principally for death or invalidity/disability of a breadwinner, a clear distinction is not entirely possible. Nevertheless, official reports on benefits do distinguish between pensions and those for death and other forms of withdrawal for lump sum benefits, although not clearly. For these reasons some caution is recommended in placing great a weight on the data reported here. Nevertheless, the data does present some important trends that raises important questions concerning the quality of earnings related to old age protection in South Africa.

Overall benefit pay outs from group pension schemes have ranged from 6.9% of GDP (R183 billion in 2018 prices) in 2000 to 6.8% (R331 billion in 2018 prices) in 2017 (Table 17). Most of these benefits, of the order of 3.6% of GDP in 2017, are paid out from Privately Administered Funds (PAF). The next largest is a single scheme, the Government Employees Pension Fund (GEPF), which paid out 1.9% of GDP in 2017. Underwritten funds (UWF) are the next largest at 1.0% of GDP in 2017.

Contributions to group schemes are smaller than benefit pay outs, which is attributable to the fact that group schemes are in part funded by returns on investment. For instance, overall benefit pay-outs of 6.8% of GDP are financed by contributions

of only 5.1% of GDP in 2017. This implies that roughly 1.7% of GDP is funded from asset returns.

Estimated total revenue of pension funds, including returns on investment, is far greater than benefits paid, with 16.7% of GDP (R445 billion in 2018 prices) raised in 2000 and 10.9% of GDP (R534 billion in 2018 prices) raised in 2017. Looking purely at the GEPF, in 2017, R183 billion, or 3.7% of GDP, was raised as revenue in 2017, but only R93 billion, or 1.9% of GDP, paid out as actual benefits.

The reason for the large asset accumulations in private pension funds is to ensure that they are advance funded, which means that assets are accumulated to cover both current and accrued liabilities. Complete advance funding in private schemes is necessary to protect beneficiaries from employer or fund failures, as all funds necessary to cover all liabilities are at all times ring fenced in the fund and separated from the employer.

Table 17: Private pension revenue, contributions and benefits paid out (2000 to 2017)

Year	BCF	Foreign Funds	GEPF	Post Office	PAF	Telkom Fund	Transnet Fund	UWF	Total
Estimated total revenue to pension schemes 2000 to 2017 (2018 prices)									
2000	1 162	0	126 680	2 413	200 265	307	18 835	95 345	445 008
2008	128	0	74 039	830	134 586	24	4 868	41 491	255 965
2017	0	62	182 717	1 476	257 294	14	9 431	83 029	534 024
Estimated total revenue to pension scheme 2000 to 2017 (percentage of GDP) (%)									
2000	0.0	0.0	4.7	0.1	7.5	0.0	0.7	3.6	16.7
2008	0.0	0.0	1.8	0.0	3.3	0.0	0.1	1.0	6.3
2017	0.0	0.0	3.7	0.0	5.3	0.0	0.2	1.7	10.9
Contributions to pension schemes 2000 to 2017 (2018 prices)									
2000	170	0	13 448	234	20 910	33	1 053	16 282	52 130
2008	51	12	25 759	270	55 517	6	1 342	18 911	101 868
2017	0	33	66 043	482	122 269	1	3 633	46 059	238 520
Contributions to pension schemes 2000 to 2017 (percentage of GDP) (%)									
2000	0.0	0.0	1.4	0.0	2.2	0.0	0.1	1.7	5.5
2008	0.0	0.0	1.1	0.0	2.3	0.0	0.1	0.8	4.3
2017	0.0	0.0	1.4	0.0	2.6	0.0	0.1	1.0	5.1
Benefits paid out by pension scheme 2000 to 2017 (2018 prices)									
2000	695	0	35 109	443	94 732	99	10 220	42 012	183 309
2008	618	27	38 422	772	147 748	7	14 863	41 639	244 095
2017	0	39	92 865	1 905	175 885	1	9 501	51 143	331 339
Benefits paid out by pensions scheme 2000 to 2017 (percentage of GDP) (%)									
2000	0.0	0.0	1.3	0.0	3.5	0.0	0.4	1.6	6.9
2008	0.0	0.0	0.9	0.0	3.6	0.0	0.4	1.0	6.0
2017	0.0	0.0	1.9	0.0	3.6	0.0	0.2	1.0	6.8

Source: Based on (Financial Sector Conduct Authority, 2000 to 2018; Statistics South Africa, 2000 to 2018a, 2000 to 2019; Wits School of Governance, 2000 to 2018a)

Pension benefit pay outs take a number of different forms, with only a limited portion actually paid out as a pension benefit, equivalent to only 1.4% of GDP relative to 5.4% of GDP paid out as lump sums of various forms. Death benefits¹⁰ in fact exceed pension benefits, which should not normally be the case. Given this, private pension benefits paid out at 1.4% of GDP are equivalent to social assistance old age benefits expenditure, which also amounts to 1.4% of GDP.

Resignations and terminations account for 2.3% of GDP, which also exceeds the value of pay-outs that take the form of pensions (**Table 18**). The data however does not distinguish between resignations and terminations that resulted in a withdrawal of retirement savings and those that merely involved a switch to another funds. Where complete withdrawals are involved, the system of retirement protection becomes weaker due to the reduced lifetime income smoothing.

Table 18: Pension benefits by type of benefit pay-out, expressed as a percentage of GDP (2000 to 2017) (%)

Year	Total benefits paid	Pensions	Lump sum payments			
			Total	Death	Resignation and terminations	Other
2000	6.9	2.4	4.5	2.1	2.1	0.3
2008	6.0	1.4	4.6	2.1	2.2	0.3
2017	6.8	1.4	5.4	2.6	2.3	0.4

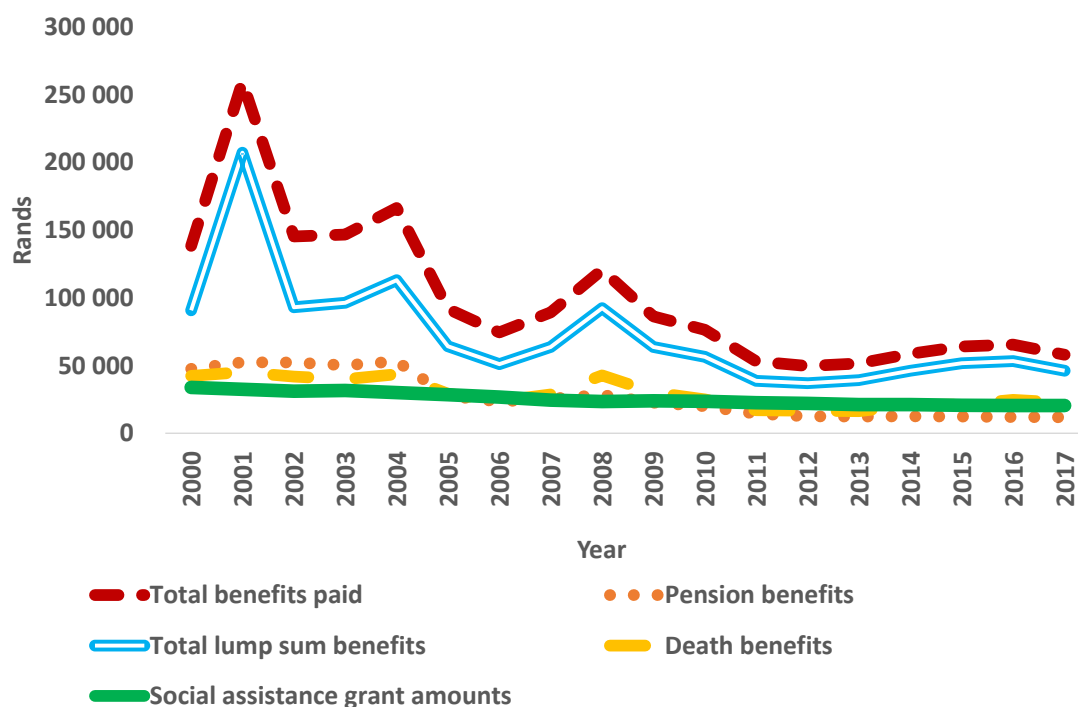
Source: Based on (Statistics South Africa, 2000 to 2018a; Wits School of Governance, 2000 to 2018a)

A concerning aspect of the trends over time indicated in both Table 18 and Figure 21, are the reduced pension pay outs from the levels in 2000 to 2004. From 2005 there is a declining trend. There are distinct periods where significant lump-sum withdrawals occur, all largely coincident with downturns in the economy, i.e. 2001 and 2008. This may be a result of resulting business closures and layoffs and the need for some families to live off their retirement savings for a period.

It is also possible that many families found it difficult, upon losing employment, to preserve part of their savings even though they were not contributing. This particular weakness in the system has been partially addressed through recent National Treasury reforms which compels funds to provide default preservation arrangements where members don't make express decisions. In the past, funds would merely have been transferred to a member's bank account, sometimes without their knowledge.

¹⁰It is unclear whether death benefits include disability benefits. The assumption made in this report, in the absence of any better reported information, that there is a 50-50 split between death and disability. For purposes of this discussion, reference is only made to death benefits as officially reported.

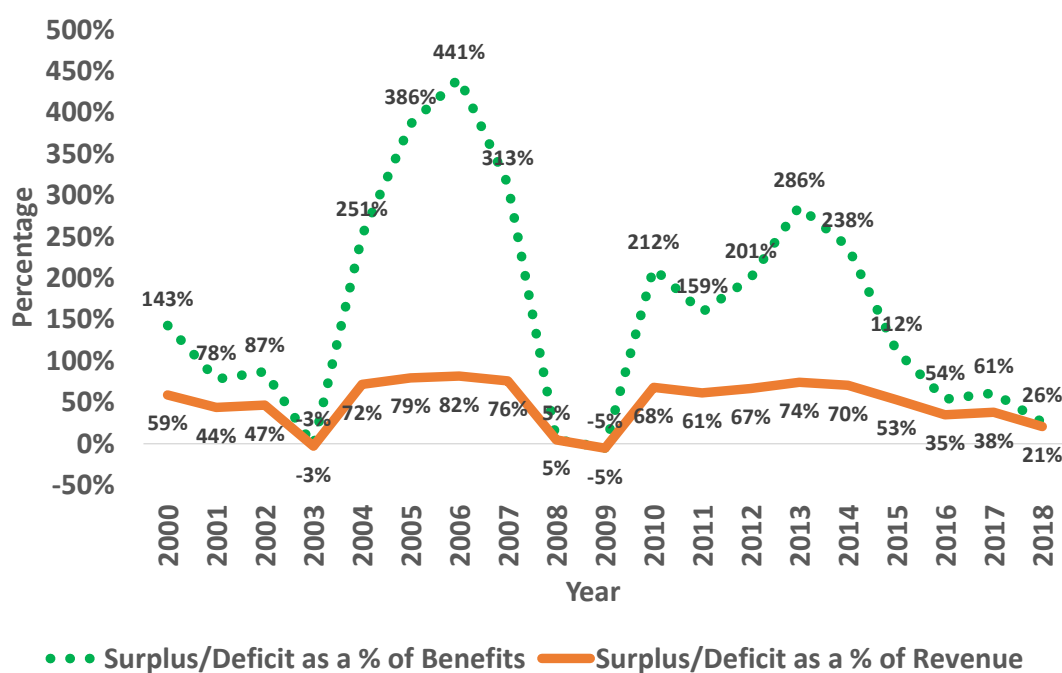
Figure 21: Pension benefits per capita by type of benefit pay-out, compared to social assistance grant amounts from 2000 to 2017 (2018 prices)



Source: Based on (Financial Sector Conduct Authority, 2000 to 2018; Wits School of Governance, 2000 to 2018a, 2000 to 2019)

The influence of returns on investment to the financing of private pensions is indicated in Figure 22, where surplus/deficits (total revenue less benefits paid) are reflected as a percentage of benefits and revenue. This indicates that, largely due to significant investment returns in some years, revenue substantially exceeds current liabilities. Deficits do occur in years following economic downturns, but then pick up substantially. During the peak growth periods, however, surpluses ran up as high as 441% of benefits in 2006 and 286% of revenue in 2013.

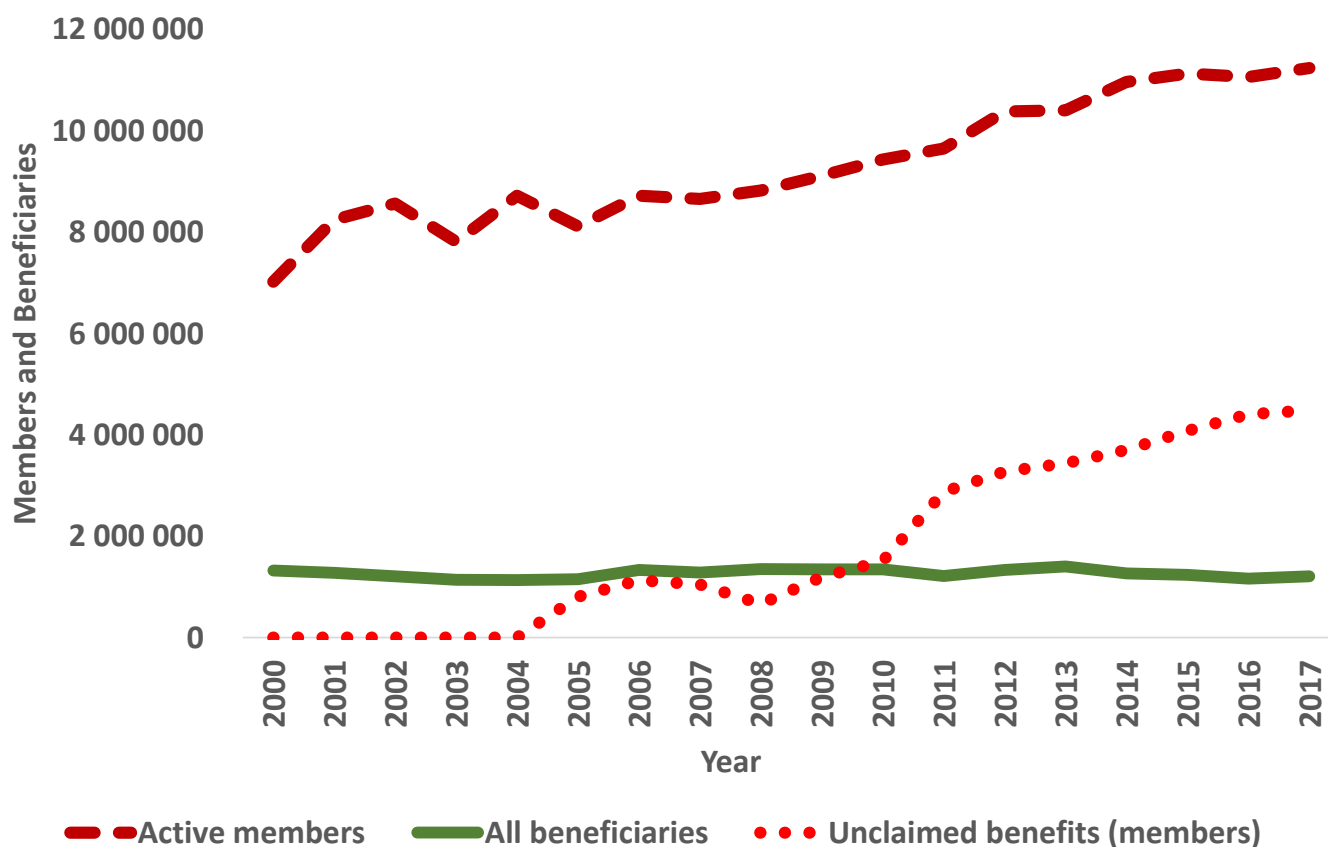
Figure 22: Surplus revenue (revenue less benefits) expressed as a percentage of benefits and revenue for the years 2000 to 2018



Source: Based on (Financial Sector Conduct Authority, 2000 to 2018; Wits School of Governance, 2000 to 2018a)

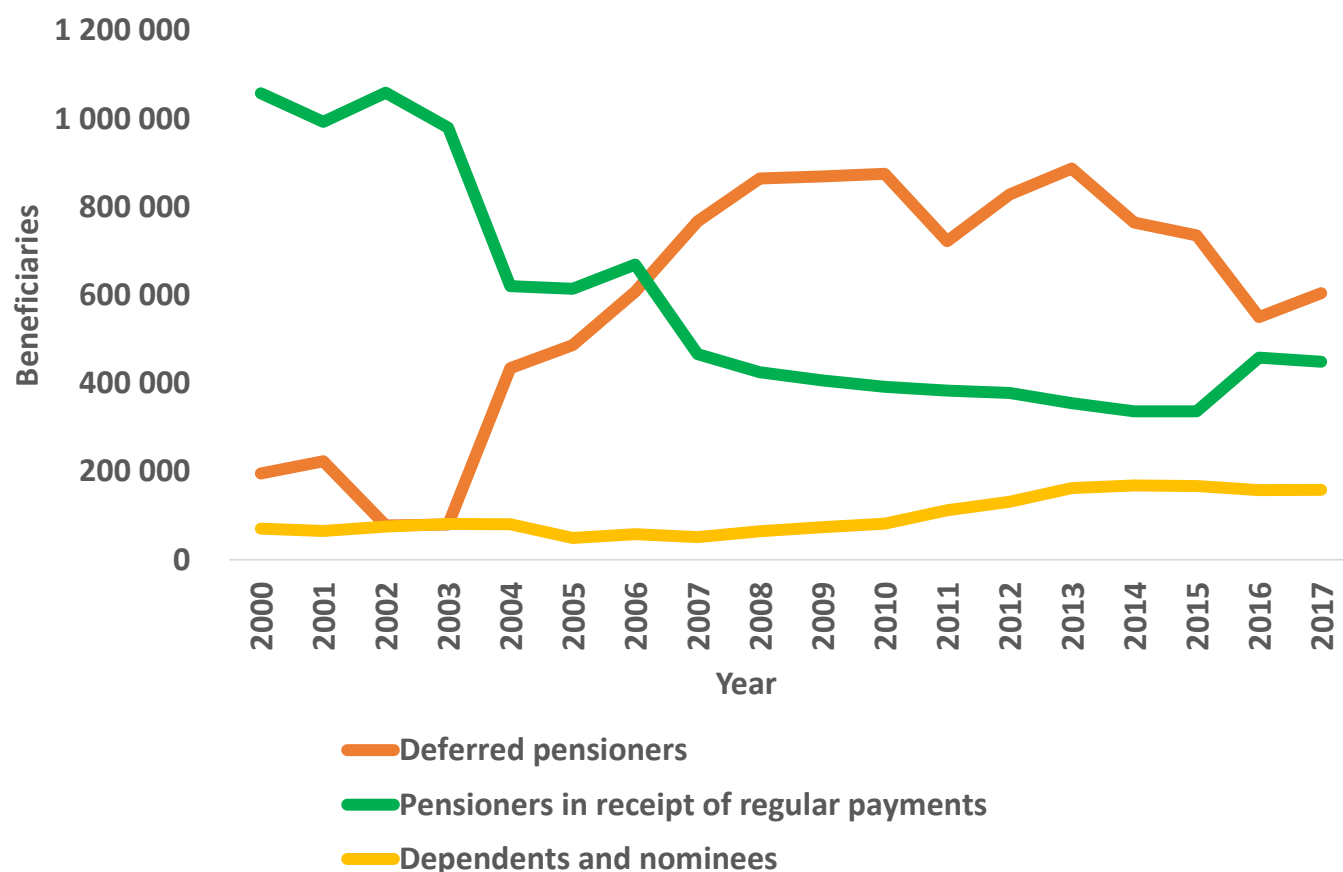
Membership and beneficiaries of private group pensions is never easy to determine, due to members and beneficiaries belonging to more than one fund. Looking purely at headcount, therefore, active members have grown steadily from 2000 (7 million) to 2017 (11.2 million) (**Figure 23**). Total beneficiaries, made up of deferred pensioners, pensioners in receipt of regular payment and dependents and nominees (**Figure 24**), have however remained relatively constant over time. By way of contrast, members/beneficiaries associated with unclaimed benefits has dramatically increased over time and in 2017 was more than three times the number of beneficiaries. The underlying reasons for these trends are not clear and may arise from increased reporting requirements.

Figure 23: Active members and beneficiaries of pension funds from 2000 to 2017



Source: Based on (Financial Sector Conduct Authority, 2000 to 2018; Wits School of Governance, 2000 to 2018a)

Figure 24: Beneficiaries of pension funds from 2000 to 2017



Source: Based on (Financial Sector Conduct Authority, 2000 to 2018; Wits School of Governance, 2000 to 2018a)

Over the period 2000 to 2017 the administrative costs¹¹ of group pension schemes appears to have risen considerably, roughly at an average real rate increase of 10.2% from 2000 to 2018 (Table 19). In 2000 administration expenditure expressed as a percentage of total revenue stood at 12.1%, rising to 21.5% in 2018. These costs represent a significant loss of benefits to members/beneficiaries when consideration is taken of the annual loss of yield implied by these costs.

Table 19: Consolidated financial results for all pension schemes (R'million) (2018 prices)

Year	Revenue (R'million) (includes est. income from assets)	Admin. (R'million) (est)	Net assets (R'million)	Admin. of revenue (est) (%)
2000	445 008	53 906	1 959 448	12.1
2011	564 106	92 537	3 576 911	16.4
2012	689 250	99 263	3 840 267	14.4
2013	967 165	108 198	4 252 349	11.2
2014	987 604	116 205	4 590 661	11.8
2015	723 548	121 310	4 799 509	16.8
2016	560 266	118 198	4 639 634	21.1
2017	534 024	114 904	4 489 140	21.5

Source: Based on (Financial Sector Conduct Authority, 2000 to 2018; Wits School of Governance, 2000 to 2018a)

¹¹These had to be estimated due to the poor reporting on administrative expenses. These should include basic member administration, asset management fees and financial advisor fees. Considerable vertical integration exists in the pensions system, leaving members and beneficiaries with a severely constrained ability to shop around and generate price competition.

The net assets of pension funds are considerable, totalling R4.4 trillion in 2017, up from R2 trillion in 2000 (all in 2018 prices). While these assets serve the purpose of underwriting the benefits of funds, they also incur high asset management fees, which are charged as a percentage of assets under management. Given that such large accumulation of assets leave little opportunity for so called active asset management, the very high asset management fees that occur in the market potentially lack a coherent economic rationale.

3.5.4 Government Employees Pension Fund

The Government Employees Pension Fund (GEPF) is so large that it can systemically influence the South African economy depending upon the funding approach (advance versus pay-as-you-go). Such schemes for civil servants are a common feature of most countries. However, the GEPF does exhibit two unusual features that are not that common.

First, it is not supervised by an independent regulatory authority, which means that members and beneficiaries do not have access to the independent complaints processes available to other private schemes¹². Furthermore, the regulators of pension funds cannot exercise the same powers of inspection and investigation that would apply to other private funds.

Second, the GEPF is advance funded, which involves the accumulation of a reserve equivalent to its current and accrued liabilities. As the GEPF is a Defined Benefit (DB) scheme, its benefits are set by formula and not determined by a contributor's actual value of contributions. Internationally, equivalent

civil service schemes are not advance funded, as the liabilities are underwritten at a societal level, i.e. by the tax payer, with the liabilities easily covered through current contributions and a partial reserve.

While it can be argued that reserves help to underwrite a pension fund from extraordinary events, i.e. they are a form of self insurance. This would imply that there is some conception of this event or events that justifies the reserve. In private events, advance funding protects members from the collapse of an employer, or similar catastrophic events. However, where the employer is a government, its continued existence is guaranteed in perpetuity.

The only event, therefore, that could eliminate the employer is the collapse of the economy. However, any such event would also eliminate the value and returns of any assets of the fund. This implies that the GEPF is at the same risk of insolvency, with and without the reserve.

In 2017 the GEPF raised R142.4 billion in revenue, and paid out benefits of R94.9 billion (**Figure 25** and **Table 20**). Of the revenue raised, R72.0 billion was revenue from investments, which in 2017 totalled R1.8 trillion. This shows that over the period 2010 to 2017, the GEPF would have an accumulated surplus in nominal terms, excluding interest earnings and administration costs, of R384.5 billion.

Although it could be argued that expanding the spread of GEPF investments to include foreign assets would offer protection in the case of a domestic economic collapse, this would involve the transfer of domestic savings offshore, with systemic consequences for the domestic economy.

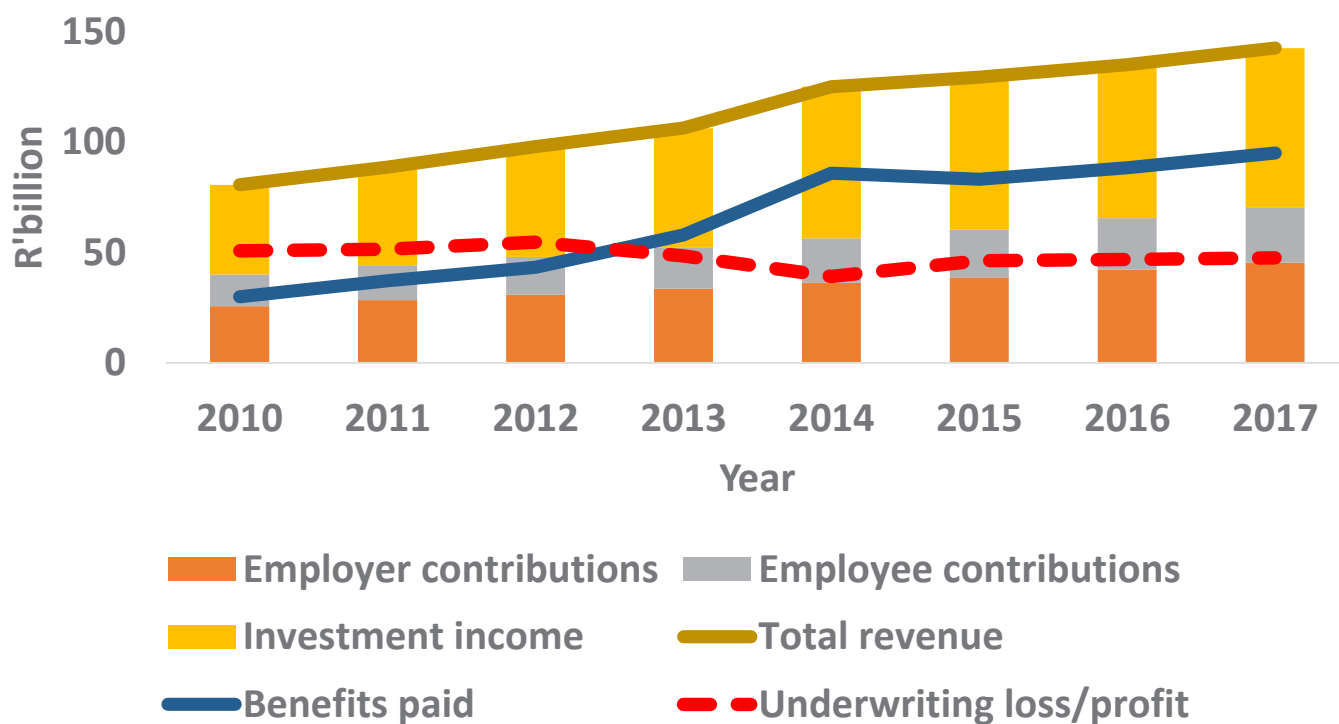
Table 20: Government Employees Pension Fund financial results from 2010 to 2017 (nominal prices) (R'billions)

	2010	2011	2012	2013	2014	2015	2016	2017
Revenue								
Employer contributions	25.7	28.4	30.8	33.5	36.1	38.6	42.1	45.3
Employee contributions	14.3	15.8	17.1	18.7	20.3	21.7	23.4	25.1
Investment income	40.6	44.5	49.9	54.0	68.5	69.0	69.5	72.0
Total revenue	80.5	88.6	97.8	106.2	124.9	129.2	135.0	142.4
Expenditure								
Benefits paid	29.9	37.2	43.2	57.9	85.8	83.1	88.3	94.9
Underwriting loss/profit	50.7	51.4	54.6	48.3	39.1	46.1	46.7	47.5
Cumulative (nominal) surplus	384.5							

Source: Based on (Wits School of Governance, 2000 to 2019)

¹²The Office of the Pension Funds Adjudicator (OPFA) was established in terms of section 30B of the Pension Funds Act No.24 of 1956 with effect from 1 January 1998 to investigate and determine complaints lodged in terms of the Act. For the OPFA to investigate a complaint against a pension fund organisation, it must be submitted in writing and the fund registered under the Pension Funds Act, 24 of 1956.

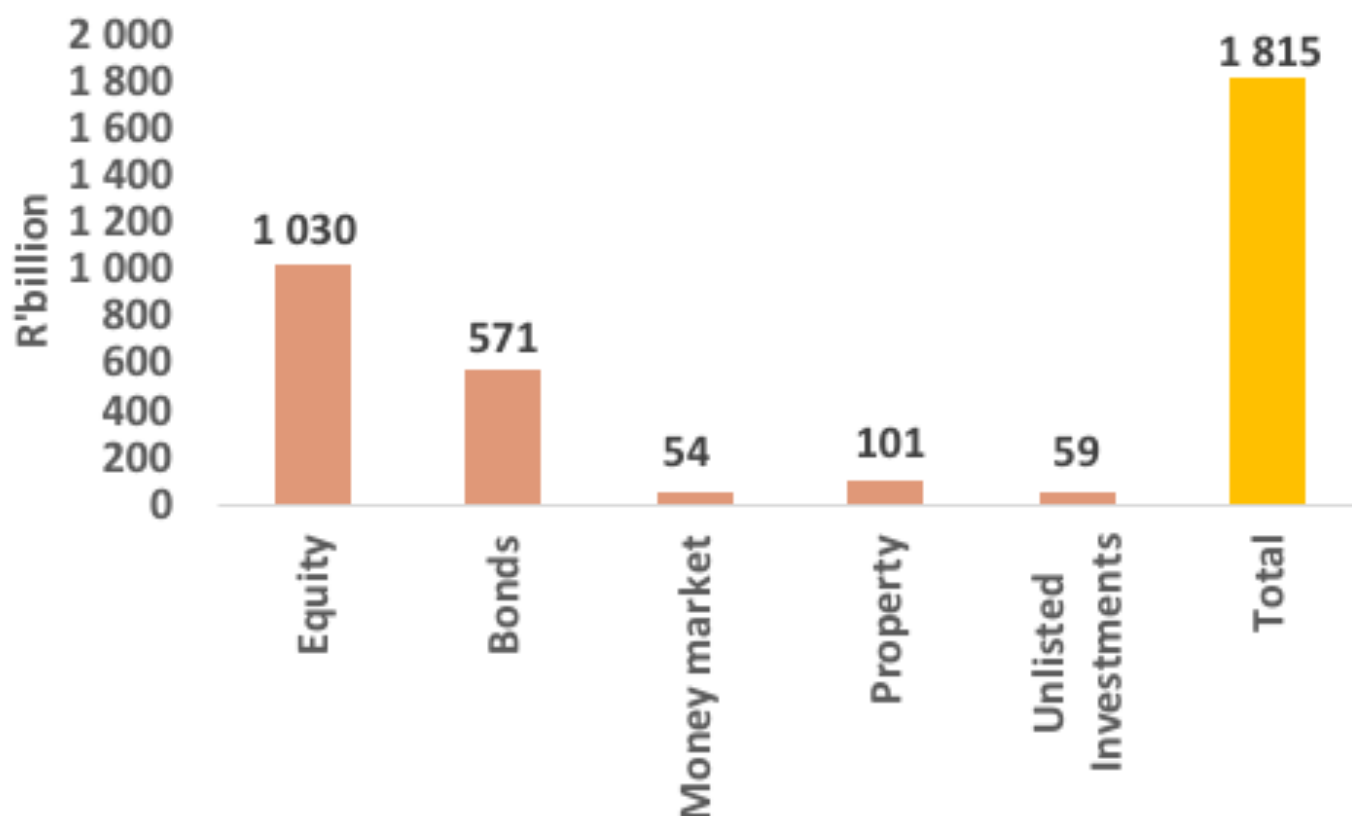
Figure 25: Government Employees Pension Fund financial results from 2010 to 2017 (nominal prices) (R'billion)



Source: Based on (Wits School of Governance, 2000 to 2019)

Figure 26 offers an indication of the asset spread of the GEPF investments. While a substantial portion is invested in equities (R1 trillion), R571 billion is in bonds, a large portion of which are government bonds.

Figure 26: Assets invested by the Public Investment Corporation (PIC) on behalf of the GEPF (2017) (Nominal prices)



Source: Based on (Wits School of Governance, 2000 to 2019)

Overall, many questions arise concerning the rationale for holding an advance reserve through the GEPP. The express purpose for any reserve is to insure a scheme against specifiable risk-related contingencies. However, the normal private pension related risks do not apply to the GEPP. These inconsistencies strongly suggest that government is in a position to reconsider its distribution of assets and liabilities. Particularly, as a large part of governments accumulated debt is in fact the result of the creation of an advance fund for the GEPP. And, furthermore, that the management of the accumulated assets incurs significant expenses that would not otherwise be required.¹³

3.5.5 Tax expenditure subsidies

An important feature of the private system of pensions in South Africa is the tax subsidy framework. Tax subsidies, or the more technically correct term, Tax Expenditure Subsidies (TES) reflect transfers from government to households, firms or private entities that are channelled via the tax system rather than

through expenditures appropriated by a legislature. These subsidies are largely invisible and are not subject to the same degree of accountability as appropriated expenditures.

However, TES can have severe fiscal implications, as they impose significant limits on the taxable incomes that government can raise for other redistributive expenditure. Furthermore, TES are invariably regressive expenditures, as they are typically claimed as a proportion of incomes earned when taking the form of a tax exemption of earned income.

The TES for private pension funds is considerable and not adequately quantified or reviewed by government. While certain of the subsidies are reflected in the National Treasury's Budget Reviews each year, no content is provided on their rationale, and the cost/benefits for the country. This section therefore reports on the TES for private pensions and raises key issues for future discussion.

Table 21: Pensions related subsidies for 2005 and 2015 as provided by the National Treasury

	2005	2015	% Real change from 2005 to 2015
Subsidy			
Pension and retirement annuity	26 653	37 567	40.9
pension contributions employees	9 870	13 670	38.5
pension contributions employers	11 099	15 857	42.9
retirement annuity	5 684	8 039	41.4
Interest exemptions	2 703	3 065	13.4
Secondary rebate (65 years and older)	1 548	2 585	66.9
Tertiary rebate (75 years and older)	0	219	n/a
Total	30 903	43 435	40.6

Source: Based on data provided by National Treasury (National Treasury, 2019, Annexure B)

National Treasury does not offer an up to date costing of the tax subsidies, and therefore the latest official information is for 2015. The overall subsidy framework for old age (savings), as reported, can be divided into those applicable to pension funds in respect of contributions and the secondary and tertiary rebates (rebates for individuals over the age of 65 and 75 respectively).

These latter rebates are equivalent to the primary rebate, which is the general level of income required to be earned before taxes are required, but are higher thresholds that apply only to income earners over the relevant ages.

A further exemption applies to tax free savings accounts, which although technically not retirement

¹³Assuming accumulated reserves of R2.2 trillion and an administrative cost of 0.35% of assets under management, the total administrative cost would be R7.7 billion per annum. Were a reserve to be reduced to half that amount, a saving of R3.85 billion would occur without changing the risk of insolvency.

savings, effectively serve a similar purpose, as only income earners would see any value in them. The contributions to these savings accounts are capped at R36,000 a year as from 1 March 2020 and involve post tax savings of individuals .

In terms of the officially disclosed financial values, the TES in respect of private retirement savings came to R43 billion, a 40.6% real increase from 2005 (R30.9 billion in 2018 prices) (**Table 21**). However,

these reported figures leave out a substantial TES applicable to private pension funds, which is the tax free earnings on investments and the tax free lump-sums which are paid out in retirement and for risk benefits.

For the purposes of simplicity, an estimate of the former is provided here to offer a more complete picture of TES applicable to private pension funds.

Table 22: Tax revenue foregone due to the absence of a withholding tax of either 18 (original value) or 25 (average marginal tax rate) in 2005 and 2015 (2018 prices)

	2005	2015	% Real change from 2005 to 2015
Subsidy			
Assets under management	1 283 921	4 035 825	214.3
Return on investment (industry average)	26.7	25.4	
Assumed revenue forgone: withholding tax of 18	61 705	71 192	15.4
Assumed revenue forgone: withholding tax of 25	85 702	98 878	15.4

Source: Based on an analysis of information reported in the Budget Reviews (National Treasury, 2017)

To cost the TES for investment returns (referred to also as the unreported TES) on private retirement funds, the following steps are followed for all years from 2005 to 2015 (the period for which the other tax subsidies are available):

- First, the average returns on investments as reported are obtained.
- Second, the rates are multiplied by the disclosed total assets of private retirement funds as reported. This provides the total value of potentially taxable returns in any given year.
- Third, possible withholding tax rates are applied to the earnings. Two levels are considered, an 18 withholding tax, which is equivalent to the historical withholding tax that was removed in the early 2000s. The second is a 25% withholding tax, which is broadly equivalent to the average marginal tax rate of the income groups contributing to retirement funds.

The results of this exercise are summarised in Table 22 and indicate that an 18 withholding tax would have raised R71 billion in 2015 (2018 prices). This is nearly double the value of the disclosed TES. A withholding tax of 25%, which is a better reflection to the tax revenue that would have been raised had personal marginal tax rates applied, would have raised R99 billion in 2015 (2018 prices), which is well over double the value of the disclosed TES. As a broad indicator of fairness in the distribution

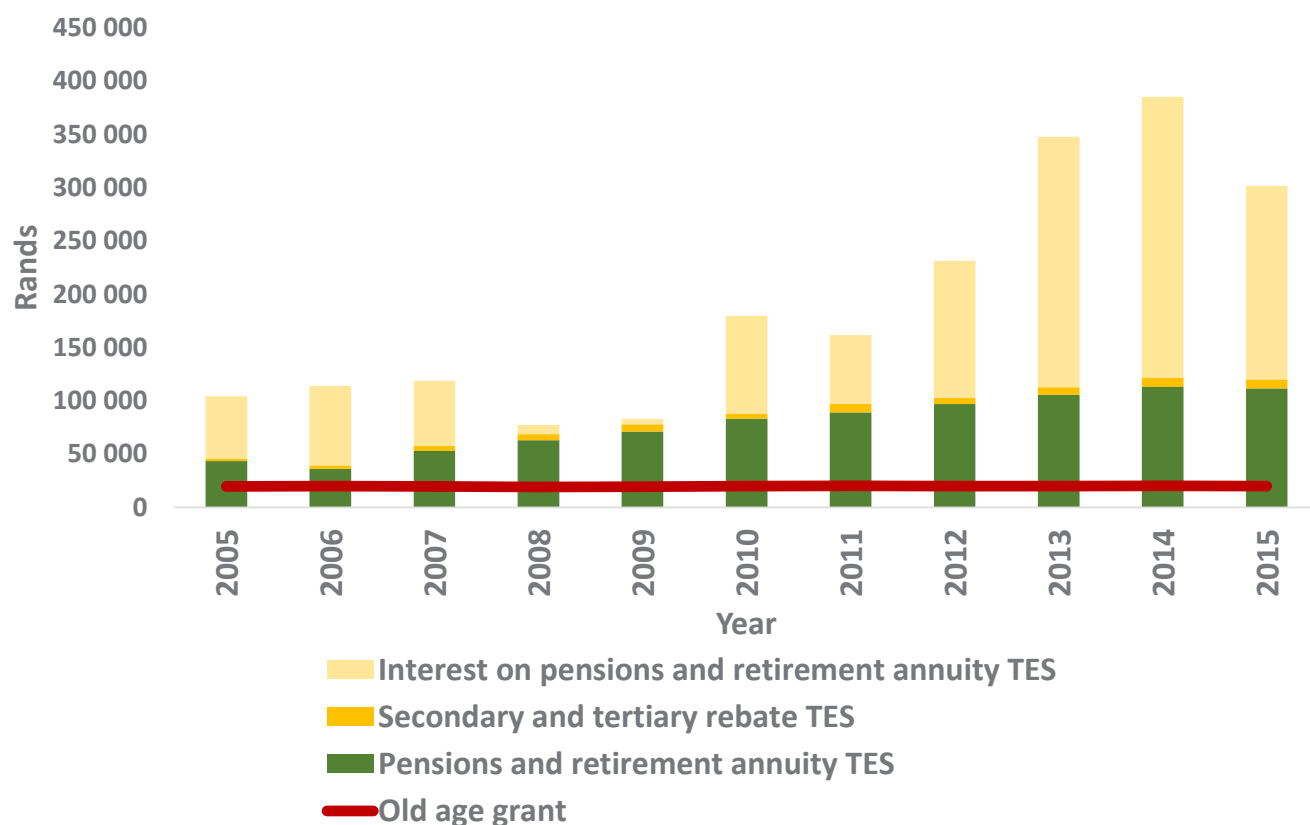
of publicly raised revenue, it is appropriate that the transfers provided through explicit appropriations (social assistance grants for old age) be compared to those provided as TES. The easiest approach for such a comparison is to express both as a per capita value.

To do this, two valuations (see descriptions below) are offered. For the purposes of this exercise the tax free savings account subsidy is excluded. To keep the estimates conservative, only the 18% withholding tax option is reflected. While per capita values are relatively straightforward, the TES estimates require a coherent beneficiary denominator with two options considered.

- High estimate: private pension beneficiaries are based on those reported as in receipt of a regular pension (the lower number of reported beneficiaries increases the per capita value of the TES); and
- Low estimate: private pension beneficiaries are based on all beneficiaries of pension funds (the higher number of beneficiaries result in a lower per capita value of the TES).

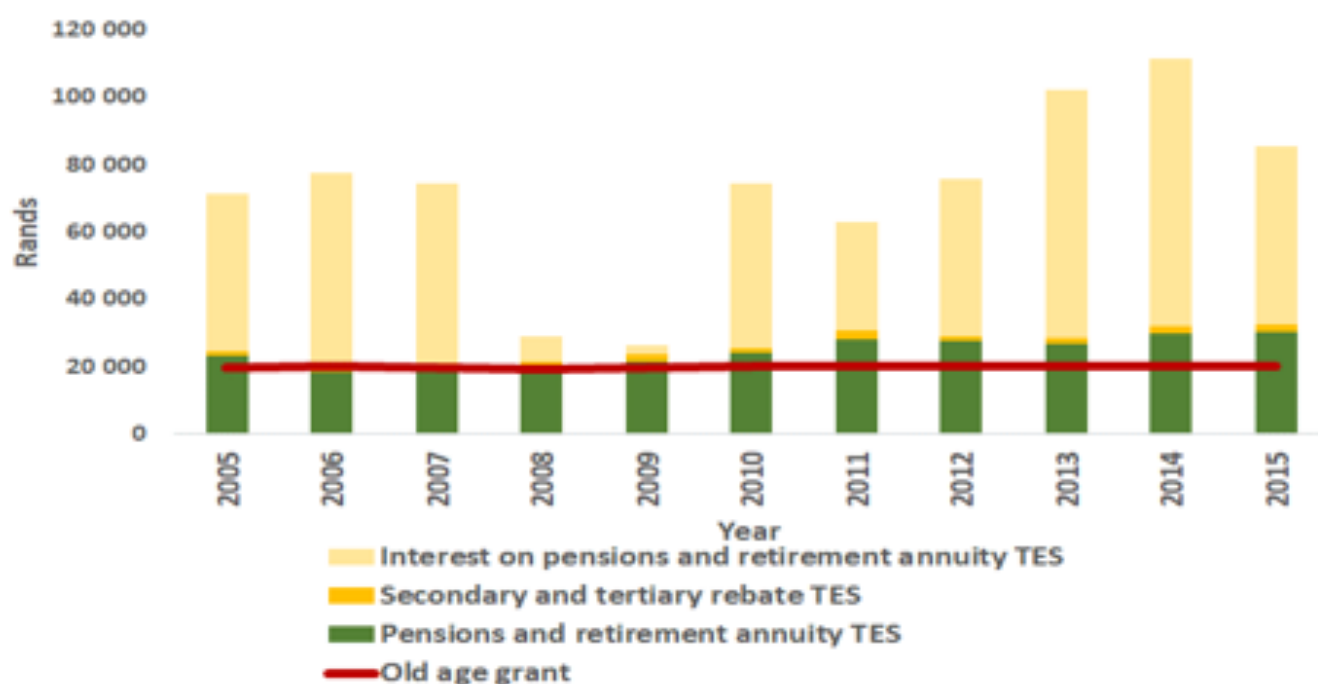
The results of the two estimates are summarised for all the years from 2005 to 2015 in Figures 28 (high estimate) and 29 (low estimate) (all results expressed in 2018 prices).

Figure 27: Pensions related tax expenditure subsidies for private pensions compared to the social assistance old age grant values (2018 prices) – high estimate (per capita values based on beneficiaries in receipt of a pension only)



Source: Based on (Financial Sector Conduct Authority, 2000 to 2018; Statistics South Africa, 2000 to 2019; Wits School of Governance, 2000 to 2018a, 2000 to 2019)

Figure 28: Pensions related tax expenditure subsidies for private pensions compared to the social assistance old age grant values (2018 prices) – low estimate (per capita values based on all beneficiaries)



Source: Based on (Financial Sector Conduct Authority, 2000 to 2018; Statistics South Africa, 2000 to 2019; Wits School of Governance, 2000 to 2018a, 2000 to 2019)

On the high estimate, the reported TES considerably exceeds the social assistance benefit, with the unreported TES reaching extraordinary levels (i.e. in excess of R200,000 per person in the years from 2010 to 2015). The low estimate indicates that the reported TES exceeds the social assistance benefit in most years, with the unreported TES taking the overall per capita values to around three to five times the per capita value of the social assistance benefit. The economic downturns in the years 2008 and 2009 significantly influenced the potential tax revenue in those years only.

Overall, this brief review of the TES for private retirement raises serious questions about the fairness of government allocations for old age protection. While the methodology used could be challenged in some respects, it is unlikely that it will produce results that substantially challenge the outcomes. Given the extraordinary transfers involved, there is a strong case for a re-assessment of the system for old age protection to make it explicit so that the wider public interest is properly served.

3.6 Invalidity

3.6.1 Strategic overview

Social security for invalidity benefits (also referred to as disability benefits) falls into three areas of protection within South Africa.

- First, there are non-contributory social assistance benefits.
- Second, there are public contributory, or social insurance schemes which provide for occupational protection for income earners, mineworkers and third-party victims of motor vehicle accidents.
- Third, group employee benefit schemes (retirement funds) and various individual insurance products are available to income earners. Where the insurance is combined with pension schemes, members benefit from tax subsidies of various forms.

Whereas it is possible to identify the invalidity benefits paid out through social assistance and some social insurance schemes, it is not possible to come up with accurate figures for private schemes irrespective of whether they provide coverage to groups or individuals. Given this, only rough estimates are provided for private coverage.

Despite various inquiries and government processes (for instance the Taylor Committee of

Inquiry (Taylor Committee, 2002), protection for people who become disabled lacks any form of national strategic focus. This fragmentation extends to policy determination, legislative frameworks, and institutional frameworks. In 2015 a White Paper (Minister of Social Development, 2015) outlined a way forward which has wide public support and can form the basis for initiatives to strengthen the rights-based institutional framework required to integrate people with disabilities properly into society.

While some protection is available to mitigate the consequences of disability, South Africa lacks a responsive system that is able to continuously develop strategic approaches that do more than just compensate for lost earnings and costs associated with a disability.

Missing in South Africa are well-defined governance frameworks that are able to support early return to work, provide proper support services (advice, health and social care of various forms). South Africa also does not have a universal and objective disability assessment framework. Not only do different assessment frameworks exist for each public scheme, but each disability product or scheme in the private sector applies their own definition at their own discretion. There are presently efforts to implement a Harmonised Assessment Tool (HAT) for the disability grant. There are also proposals contained in the comprehensive social security reform proposals presently before National Economic Development and Labour Council (NEDLAC) which would include social insurance regimes (both public schemes and regulated private schemes).

3.6.2 Social assistance

Social assistance for invalidity is available to any person assessed as being disabled by a medical practitioner. Once a person reaches the age of 60, however, all beneficiaries on this grant are moved to the old age grant. For a grant that has been in existence for some time, it nevertheless demonstrates unusual changes in beneficiary numbers over the period 2000 to 2018 (Table 23). The significant increase in beneficiaries from 2000 to 2006 may have much to do with the HIV and AIDS pandemic, prior to the introduction of treatment by the National Department of Health. Before 2006 many individuals with AIDS related conditions may have been classified as disabled by medical practitioners. The introduction of anti-retroviral (ARV) treatment from 2006 could therefore have contributed to the drop-off in numbers from 2008.

As a form of social protection, the value of the grant has remained quite low in financial terms, showing only a 12.4% real improvement relative to the CPI from 2000 to 2018 (**Table 23**). Over the period 2009 to 2018 grant values improved by only 4.4% in real terms. When an index of GDP changes is used instead of CPI, grant values declined by 39.9% over the period 2000 to 2018, and by 15.4% from 2009 to 2018. The GDP index (inter alia) offers an indication of potential fiscal capacity for improvements in benefits that was not exercised by Government.

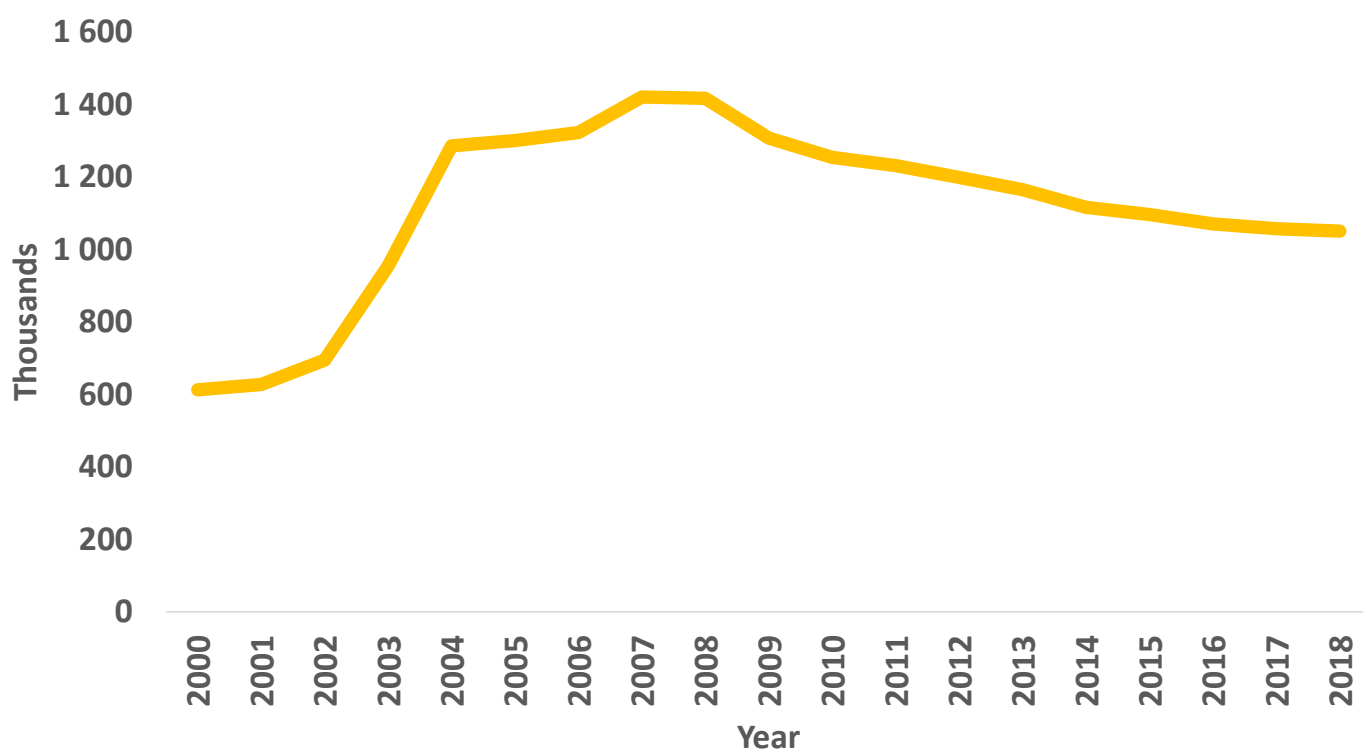
Due largely to the increased number of beneficiaries, there was a 43.3% improvement in expenditure on the disability grant over the period 2000 to 2018. However, from 2009 to 2018 there was a 25.8% real decline, consistent with the reduced number of beneficiaries and stagnation in the value of the grant. When the GDP index is applied, however, there was a 23.4 real decline over the period 2000 to 2018, and a dramatic 39.8% decline from 2009 to 2018.

Table 23: Key features of social assistance for invalidity/disability for the period 2000 to 2018

Grant	2000	2009	2018	% Change 2000 to 2018	% Change 2009 to 2018
Exp. (R'million) (2018 prices) (CPI)	15 428	29 782	22 105	43.3	-25.8
Exp. (R'million) (2018 prices) (GDP index)	28 862	36 747	22 105	-23.4	-39.8
Percentage of GDP	0.6	0.7	0.4	-24.2	-40.1
Grant amounts (2018 prices) (CPI)	1 508	1 624	1 695	12.4	4.4
Grant amounts (2018 prices) (GDP index)	2 822	2 003	1 695	-39.9	-15.4
Beneficiaries (000)	613	1 307	1 050	71.4	-19.6

Source: Based on (Statistics South Africa, 2000 to 2018a, 2000 to 2019; Wits School of Governance, 2000 to 2019)

Figure 29: Social assistance invalidity/disability beneficiaries from 2000 to 2018



Source: Based on (Wits School of Governance, 2000 to 2019)

Overall, no significant improvement in policy affecting persons with disabilities has occurred over the period 2000 to 2018, with an implied reduction in prioritisation evident from the deterioration in beneficiary numbers, grant values and expenditure in the period 2009 to 2018 (**Figure 29** and **Table 23**). The standard of living for people dependent on disability grants will also have deteriorated relative to income earners (including those whose income is derived from wealth rather than employment), largely through the passive process of incrementing grant values broadly in accordance with CPI rather than changes in the GDP.

3.6.3 Social insurance

Disability coverage through social insurance arrangements is limited primarily to two schemes, the Compensation Fund, which applies exclusively to employees and excludes dependants, and the RAF for third-party coverage in the case of road accidents. Combined, expenditure amounts to roughly 0.07% of GDP, with a significant decline from 2009 (Table 24). From 1994, no significant enhancement in protection for income earners has been envisaged. The current framework largely reflects the system implemented under Apartheid.

Table 24: Invalidity/disability expenditure from 2000 to 2018 (R'million) (2018 prices)

Grant	2000	2009	2018	% Change 2000 to 2018	% Change 2009 to 2018
Invalidity/disability expenditure	1 140	3 737	3 718	226.1	-0.5
Percentage of GDP	0.04	0.09	0.07	74.3	-19.4

Source: Based on (Statistics South Africa, 2000 to 2018a, 2000 to 2019; Wits School of Governance, 2000 to 2019)

3.6.4 Private insurance

Unpacking the reported information on private insurance presents significant challenges. As a consequence, no informed assessment can be made about the extent and quality of coverage provided. Challenges include the apparent double-counting of contributions and benefit pay outs reported by pension funds and long-term insurers and no separate reporting of benefits paid for death and disability.

To provide an indication of the challenge, extracted information from long term insurance reporting is provided in Table 25. Here specific mention is made of disability pay outs. The data has been extrapolated to 2018 for comparability purposes, but is officially reported (by the time of writing this report) to 2016.

Disability benefits are estimated to be roughly 0.2% of GDP in 2018, unchanged from 2013 and mirror the profile for contributions. Liabilities are estimated to be 0.6% of GDP. Life benefits, which probably

includes disability and pension pay outs, are estimated to be 4.7% of GDP in 2018 with liabilities of around 30.3% of GDP.

Non-benefit expenditure, which is largely profit, is very high for disability and life benefits in the period 2013 to 2015 (28.9% to 31.0% for disability and 22.7% to 23.9% for life benefits), but reduces in 2016. Health products demonstrate extraordinary surpluses in excess of 50 for all years to 2016 – which is strongly suggestive of systemic overpricing.

Overall, no conclusion is possible on the contribution made by private insurance to social protection for invalidity or any other contingency for that matter – other than to say that families with more precarious earnings have limited protection, while those with secure incomes fair better. However, even families with secure incomes may face problems in accessing benefits and have benefits capped due to employer conduct (by which is meant employer decisions incorporated into the rules of schemes)¹⁴.

¹⁴Employees typically have very limited influence over the rule changes that occur in private employee benefit schemes. This includes both medical schemes and retirement arrangements.

Table 25: Long term insurance products, liabilities, contributions and benefits from 2013 to 2018 (R'million) (2018 prices)

	2013	2014	2015	2016	Estimated	
					2017	2018
Liabilities						
Disability	20 025	22 449	23 603	25 622	27 883	30 494
Life	1 347 851	1 490 157	1 487 201	1 435 438	1 471 245	1 515 416
Health	9 826	10 653	10 343	9 631	9 605	9 627
Contributions						
Disability	10 404	11 627	11 961	11 155	11 470	11 852
Life	230 590	245 532	252 338	248 038	254 780	263 002
Health	6 496	6 689	7 695	7 096	7 351	7 652
Benefit pay-outs						
Disability	7 393	8 479	8 249	9 287	10 070	10 973
Life	178 192	187 452	192 079	208 931	220 853	234 613
Health	2 855	3 042	3 303	3 469	3 709	3 986
Liabilities (% of GDP)						
Disability	0.4	0.5	0.5	0.5	0.6	0.6
Life	28.9	31.4	31.0	29.7	30.1	30.3
Health	0.2	0.2	0.2	0.2	0.2	0.2
Contributions (% of GDP)						
Disability	0.2	0.2	0.2	0.2	0.2	0.2
Life	4.9	5.2	5.3	5.1	5.2	5.3
Health	0.1	0.1	0.2	0.1	0.2	0.2
Benefit pay-outs (% of GDP)						
Disability	0.2	0.2	0.2	0.2	0.2	0.2
Life	3.8	4.0	4.0	4.3	4.5	4.7
Health	0.1	0.1	0.1	0.1	0.1	0.1
Non-benefit expenditure percentage of contributions (includes profits) (%)						
Disability	28.9	27.1	31.0	16.7	12.2	7.4
Life	22.7	23.7	23.9	15.8	13.3	10.8
Health	56.0	54.5	57.1	51.1	49.5	47.9
Non-benefit expenditure (includes profits)						
Disability	3 012	3 148	3 712	1 868	1 400	878
Life	52 398	58 080	60 259	39 107	33 927	28 389
Health	3 641	3 647	4 392	3 627	3 641	3 666

Source: (Statistics South Africa, 2000 to 2018a, 2000 to 2019; Wits School of Governance, 2000 to 2018a)

3.7 Social Insurance

Whereas social insurance arrangements around the world include private contributory regimes that are regulated to institutionalise social protections, within the South African context it includes only public contributory schemes established to provide protection for specific contingencies. There are four schemes reflected in this section: the Unemployment

Insurance Fund (UIF); the Road Accident Fund (RAF), which is in the process of being transitioned into the Road Accident Benefit Scheme (RABS); the Compensation Fund which provides benefits for occupational injuries and diseases; and the Compensation Commissioner for Occupational Diseases (CCOD) which provides benefits for mineworkers with occupational diseases (see **Box 4** for definitions).

Box 4: Social insurance arrangements in South Africa

Unemployment Insurance Fund (UIF): This fund is established in terms of the Unemployment Insurance Act (Republic of South Africa, 2001) and is operated through the Department of Employment and Labour.

Compensation Fund: This fund is established in terms of the Compensation for Occupational Diseases and Injuries Act (Republic of South Africa, 1993) and is operated through the Department of Employment and Labour.

Road Accident Fund (RAF): This fund operates through a Principal Act, The Road Accident Fund Act (Republic of South Africa, 1996) and the Road Accident Fund Transition Act (Republic of South Africa, 2012). The latter deals with the transition from RAF into the Road Accident Benefit Scheme (RABS). The RAF/RABS framework is operationalised through the Department of Transport. This fund focuses on third-party insurance protection for the victims of road accidents.

Compensation Commissioner for Occupational Diseases (CCOD): This fund/arrangement is provided for in legislation through the Occupational Diseases in Mine Workers Act (Republic of South Africa, 1973). The arrangement falls under the control of the National Department of Health.

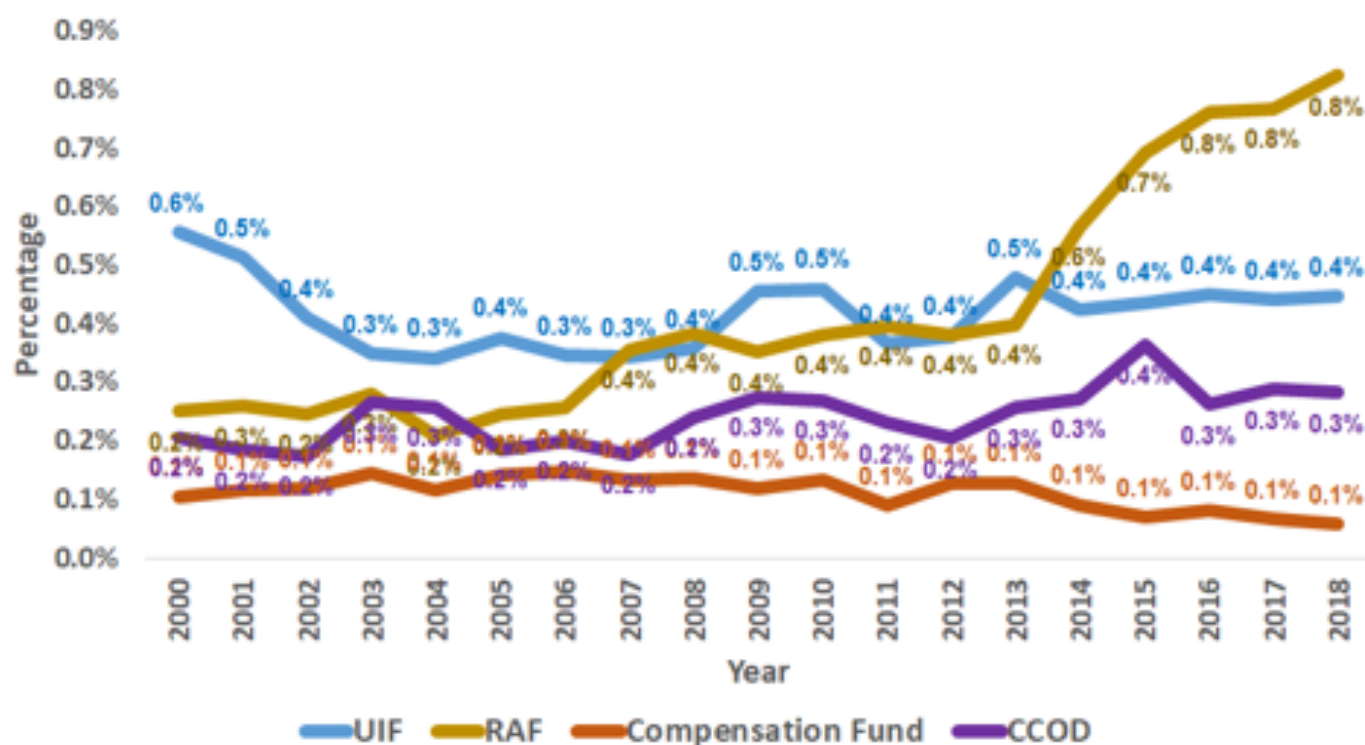
Total expenditure in 2018 for the four schemes amounted to R76.5 billion up from R28.0 billion (in 2018 prices) in 2000 (Table 26). This equates to only 1.6% of GDP in 2018, up from 1.2% of GDP in 2000 (Figure 30). No significant improvements in social protection via social insurance schemes has occurred in the period in question.

Table 26: Total expenditure of the various social insurance funds from 2000 to 2018 (R'million) (2018 prices)

Grant	2000	2009	2018	% Change 2000 to 2018	% Change 2009 to 2018
UIF	13 254	16 976	18 455	39.2	8.7
RAF	6 588	14 126	41 127	524.3	191.1
Compensation Fund	2 776	4 724	2 870	3.4	-39.3
CCOD	5 411	11 027	14 047	159.6	27.4
Total expenditure	28 029	46 854	76 498	172.9	63.3

Source: Based on (Statistics South Africa, 2000 to 2019; Wits School of Governance, 2000 to 2018b, 2000 to 2018d, 2000 to 2018e, 2003 to 2018)

Figure 30: Consolidated social insurance expenditure by scheme expressed as a percentage of GDP



Source: Based on (Statistics South Africa, 2000 to 2018a; Wits School of Governance, 2000 to 2018b, 2000 to 2018d, 2000 to 2018e, 2003 to 2018)

One example of an anomalous trend is that for unemployment protection. Despite two economic downturns during this period, the UIF payment of benefits actually declined as a percentage of GDP, from 0.5% in 2000 to 0.4% in 2018, although there was an overall real expenditure increase of 75.5% over the same period. Over the period 2009 to 2018 the increase was only 23.6%, despite a substantial

increase in unemployment over the same period. Over the same period, a surplus of R156.8 billion (Table 27) was generated, a reserve that is 8.5 times the annual current liability. Put another way, if contribution revenues were immediately stopped, the fund could still carry on paying full benefits for a substantial period of time without placing the viability of the fund at risk.

Table 27: Assets of key social security funds invested through the Public Investment Corporation (PIC) (2017/18) (nominal prices) (R'billion)

Disability	UIF	Compensation Fund	Other	Total
Asset class				
Equity	37.1	13.6	0.3	50.9
Bonds	88.4	39.5	13.3	141.2
Money market	16.1	9.5	32.3	58.0
Property	5.5	1.1	0.2	6.9
Unlisted Investments	9.7	1.6	0.0	11.3
Total	156.8	65.3	46.1	268.2

Source: (Wits School of Governance, 2000 to 2019)

Benefits other than unemployment benefits do not show much improvement over the period 2000 to 2018, with illness benefits showing an overall real decrease (-17.9%) with adoption benefits declining by 33.1% in the period 2009 to 2018 (Table 28). Dependants' benefits show an overall improvement

of 30.7 over the entire period, but virtually no change over the period from 2009 to 2018. By way of contrast, administration expenditure shows the largest overall increase as an expenditure item, at 167.0% over the period from 2000 to 2018, and 191.8% over the period 2009 to 2018.

Table 28: Unemployment Insurance Fund expenditure and revenue from 2000 to 2018 (R'million) (2018 prices)

Expenditure	2000	2009	2018	% Change 2000 to 2018	% Change 2009 to 2018
Unemployment Benefits	4 291	6 095	7 531	75.5	23.6
Illness Benefits	441	337	313	-29.0	-6.9
Maternity Benefits	1 268	893	1 040	-17.9	16.4
Adoption Benefits	339	512	343	1.3	-33.1
Dependants Benefits	7 058	9 223	9 227	30.7	0.1
Administration	1 454	1 330	3 882	167.0	191.8
Total	14 850	18 390	22 337	50.4	21.5
Revenue	5 307	29 148	59 451	1020.2	104.0

Source: (Statistics South Africa, 2000 to 2019; Wits School of Governance, 2000 to 2018e)

The Compensation Fund and the CCOD, despite crucial forms of occupational social protection for injuries and diseases, demonstrate very little change in real expenditure from 2000 to 2018. There are significant potential overlaps in purpose and benefit frameworks between the two funds¹⁵, but both operate in isolation from each other and are supervised by different government departments.

The CCOD is an important instrument for protecting mine workers who may develop chronic medical conditions during and after their active employment careers. However, the policy and institutional framework remains largely the same as that implemented prior to 1994. The same can largely be said for the Compensation Fund. The Taylor Committee recommended significant policy changes in 2002 (Taylor Committee, 2002), which are yet to be considered and implemented. As summarised in Box 5, many of the issues (concerns and policy gaps) raised in 2002 in this Committee report unfortunately continue to apply today.

An unusual feature of the Compensation Funds finances are the reported investments managed by the Public Investment Corporation (PIC), which amount to R65.3 billion in 2017/18 (Table 27). This is 22.8 times annual expenditure in 2018. This appears attributable to the substantial current surpluses (current revenue minus less current liabilities) generated each year. In 2018, total revenue of R11.7 billion was raised compared to total expenditure of R2.7 billion. This is similar to the picture for the UIF, which is also operated by the Department of Employment and Labour. These surpluses appear unwarranted for a public insurance scheme.

¹⁵See Table 26 for a comparison of the expenditures of both funds.

Box 5: Taylor Committee of Inquiry recommendations concerning occupational injuries and diseases

“The critical gaps [in the social protection system for occupational injuries and diseases] and concerns mainly relate to:

- *“Responsibility for compensation being divided between different bodies with different administrative criteria for assessing claims and making awards, resulting in an inequitable system.*
- *“The administrative backlogs of compensation systems in resolving compensation claims submitted by and on behalf of workers have resulted in inefficient compensation service provided by the state, which is prejudicial to workers affected by an occupational injury or disease.*

“It is suggested that these problems should be addressed within the framework of developing a comprehensive national occupational health and safety policy.

“In the interim a more efficient administration of the current compensation system needs to be established, while indicators for the assessment of progress in this regard have to be determined.”

(Taylor Committee, 2002, p. 115)

Table 29: Compensation Fund expenditure and revenue from 2000 to 2018 (R'million) (2018 prices)

Expenditure	2000	2009	2018	% Change 2000 to 2018	% Change 2009 to 2018
Medical Claims	467	1 354	2 746	487.8	102.8
Compensation Claims	307	1 107	124	-59.7	-88.8
Administration	220	478	1 574	615.8	229.5
Total	994	2 939	2 870	188.7	-2.4
Revenue	1 550	4 535	11 684	653.6	157.6

Source: (Statistics South Africa, 2000 to 2019; Wits School of Governance, 2000 to 2018e)

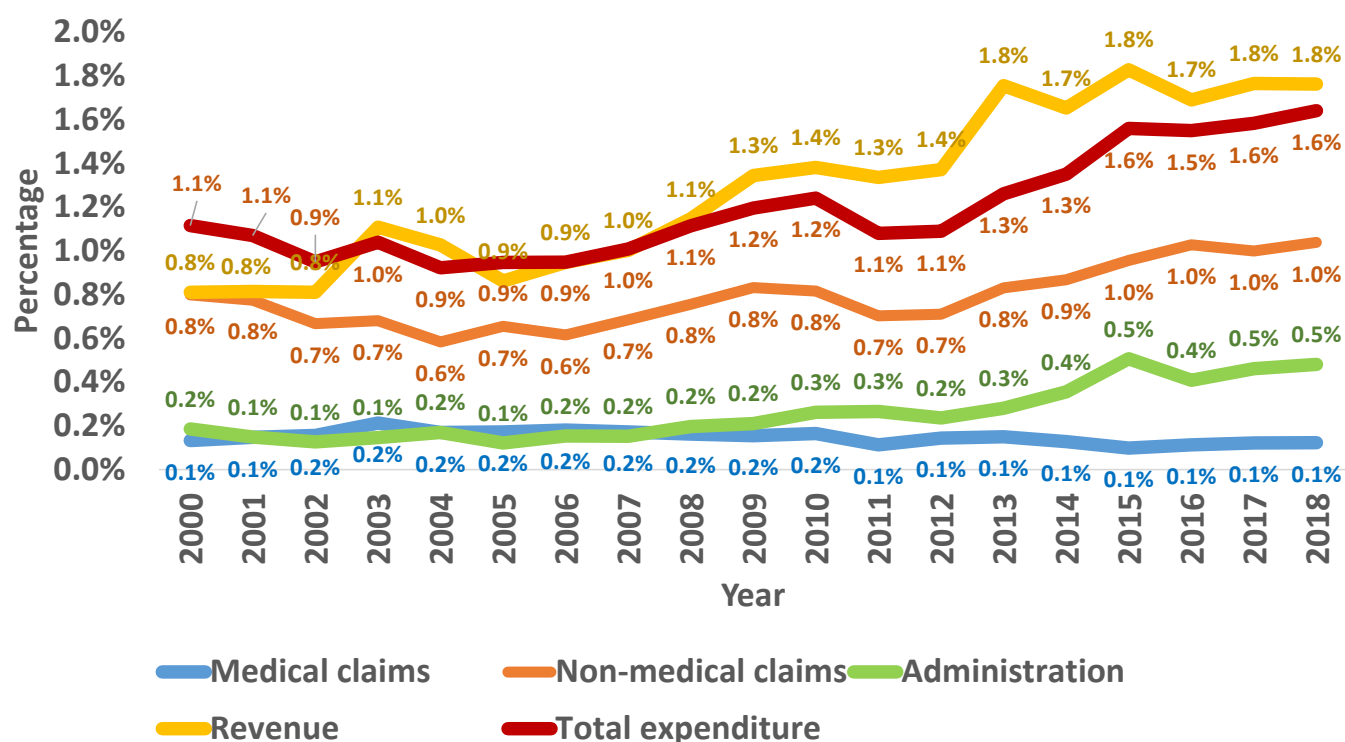
In contrast to the other funds, significant increases in expenditure arise in the case of the RAF. In this case expenditure moves from 0.2% of GDP in 2000 to 0.8% by 2018 (a 524.3% real increase in expenditure) (Figure 30 and Table 26). These increases are largely a consequence of higher claims costs, rather than from improved entitlements. The extremely narrow social protection focus of the fund, which is narrowed

even further in the RABS approach¹⁶, suggests that the increased expenditures may not reflect an improvement in addressing genuine social needs. Importantly, medical benefit payments are poorly managed and heavily capped, the payment of which was historically impeded by the application of the administratively inefficient fault based approach derived from the common law.¹⁷

¹⁶Where benefits are no longer fault-based, but heavily capped.

¹⁷Under this system, benefits paid from the fund would be apportioned between the various parties involved in a road accident based on the relative contribution each made to the cause of the accident. As a consequence, medical services could not tell in advance whether they would be fully or partially compensated for what was often catastrophic medical expense.

Figure 31: Consolidated social insurance expenditure by contingency expressed as a percentage of GDP



Source: Based on (Statistics South Africa, 2000 to 2018a; Wits School of Governance, 2000 to 2018b, 2000 to 2018d, 2000 to 2018e, 2003 to 2018)

A worrying feature of all the social insurance funds is the dramatic escalation of administration costs over the period 2000 to 2018 (Table 30). By 2018 administration expenses expressed as a percentage of fund expenditure reached 17.4%, 20.0%, 54.9% and 73.5% for the UIF, RAF, Compensation Fund and CCOD respectively. Over the period 2008 to 2018

this represents real increases of 140.3%, 108.8%, 237.5% and 61.5% for the UIF, RAF, Compensation Fund and CCOD respectively. Given that there is no discernible improvement in the social protection offered, or the quality of the administration, these expenditure changes are questionable and suggest governance weaknesses in the system of social insurance.

Table 30: Administration expenditure expressed as a percentage of total expenditure for all social insurance funds from 2000 to 2018

Social insurance funds	2000	2009	2018	% Change 2000 to 2018	% Change 2009 to 2018
UIF	9.8	7.2	17.4	77.5	140.3
RAF	9.1	9.6	20.0	119.4	108.8
Compensation Fund	22.1	16.3	54.9	147.9	237.5
CCOD	41.1	45.5	73.5	78.7	61.5

Source: Based on (Wits School of Governance, 2000 to 2018b, 2000 to 2018d, 2000 to 2018e, 2003 to 2018)

The following three overall observations can be made about the present social insurance schemes:

- First, the policy framework shows virtually no movement from the framework implemented prior to 1994, a period of 26 years to 2020;
- Second, benefit arrangements have virtually not improved in stark contrast to dramatically increased administrative expenditure which have no obvious logical explanation; and
- Third, two key funds, the UIF and the Compensation Fund, have systemic recurrent surpluses which have resulted in asset accumulations out of all proportion to the purposes of the funds themselves.

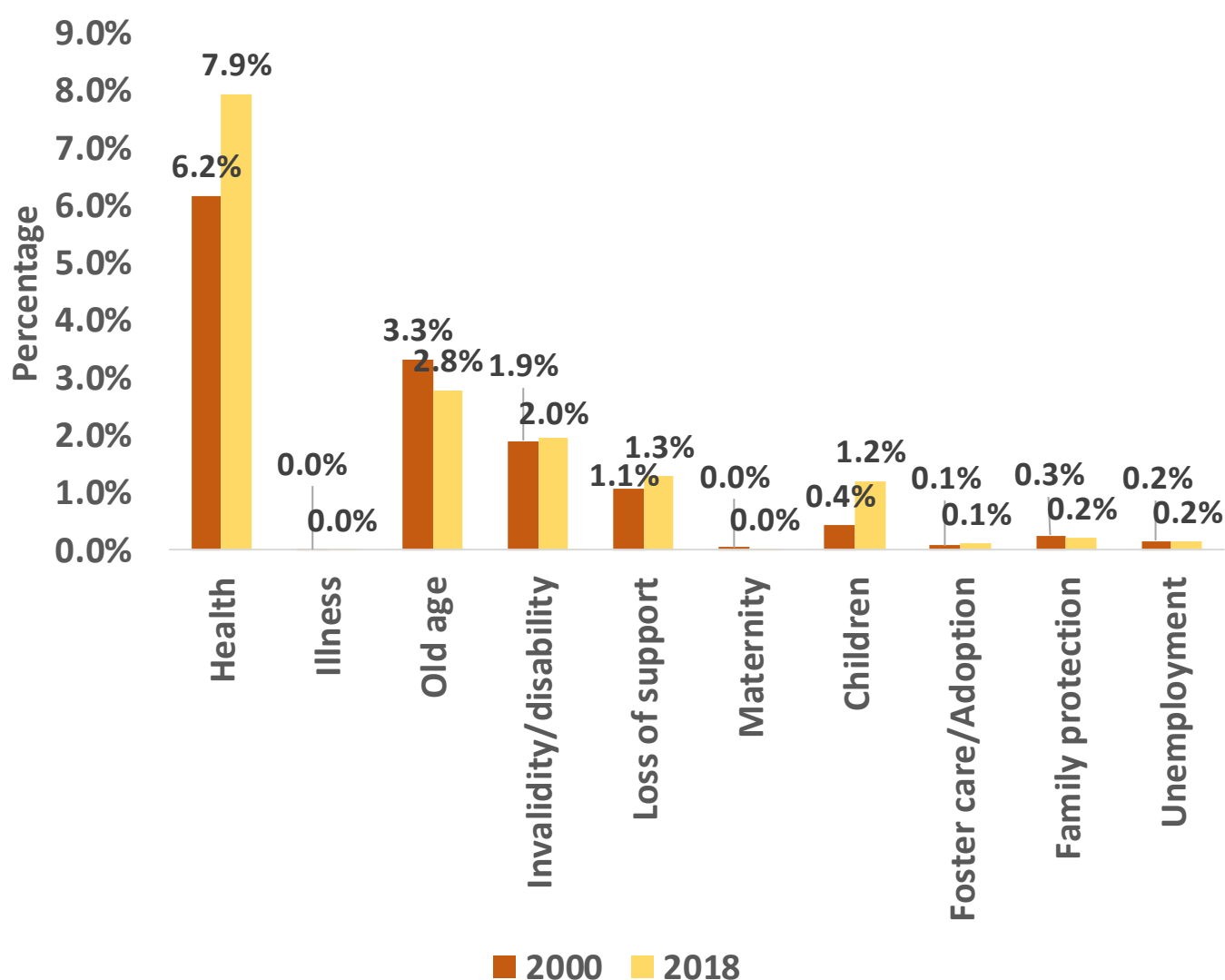
The current system of social insurance for South Africa appears to be a severely neglected area of policy. A degree of institutional inertia has set in that prevents any structural shift from the

Apartheid institutional frameworks which supported a privileged few.

3.8 Consolidated Social Budget

A consolidated overview of estimated social security expenditure is provided here. As not all social security expenditure is properly reported on, it should be understood that this is a rough indication of the spread of expenditure rather than a definitive picture. In some cases, such as pensions and private insurance, only benefit expenditure is included based on group schemes – as this appears to be the most reliable. It should be noted that the totals in these tables will vary from consolidated pictures in other sections which are based on contributions rather than benefit pay outs. Readers should therefore use this overview merely as a crude indication of the actual picture.

Figure 32: Consolidated distribution of social security expenditure for 2000 and 2018 expressed as a percentage of GDP



Source: Based on (Wits School of Governance, 2020)

Table 31: Consolidated summary of social security expenditure in South Africa by contingency and whether the coverage is formal or informal in nature for 2000 and 2018 (R'million) (2018 prices)

Contingency	2000			2018		
	Formal	Informal	Total	Formal	Informal	Total
	Expenditure (2018 prices)					
Health	164 730	0	164 730	396 631	0	396 631
Illness	441	0	441	313	0	313
Old age	25 885	63 104	88 989	70 531	68 885	139 416
Invalidity/disability	17 266	33 558	50 824	26 090	71 422	97 512
Loss of support	807	28 116	28 923	3 861	60 449	64 310
Maternity	1 268	0	1 268	1 040	0	1 040
Children	11 609	0	11 609	60 631	0	60 631
Foster care/Adoption	2 063	0	2 063	5 475	0	5 475
Family protection	7 058	0	7 058	10 668	0	10 668
Unemployment	4 291	0	4 291	7 531	0	7 531
TOTAL	235 418	124 777	360 195	582 771	200 756	783 528
	Expenditure (% of GDP)					
Health	6.2	0.0	6.2	7.9	0.0	7.9
Illness	0.0	0.0	0.0	0.0	0.0	0.0
Old age	1.0	2.4	3.3	1.4	1.4	2.8
Invalidity/disability	0.6	1.3	1.9	0.5	1.4	2.0
Loss of support	0.0	1.1	1.1	0.1	1.2	1.3
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	0.1	0.0	0.1
Family protection	0.3	0.0	0.3	0.2	0.0	0.2
Unemployment	0.2	0.0	0.2	0.2	0.0	0.2
TOTAL	8.8	4.7	13.5	11.7	4.0	15.7

Source: Based on (Wits School of Governance, 2020)

According to this breakdown, total estimated social security expenditure amounts to 15.7 of GDP in 2018 (up from 13.5 in 2000), with 4.0 occurring in the formal part of the system (Table 31).

It is however important to note that this is largely because medical schemes expenditure is treated as formal social security, due to the legislative guarantees and tax credits that support a degree of inclusive coverage by income and health status that would not be possible in the absence of these

measures. It is therefore treated differently to private pensions, which have highly regressive tax rebates rather than tax credits¹⁸, and no social guarantees regarding minimum benefit achievement.

Were medical schemes to be treated the same as private pensions, an additional 3.9 of GDP would be added to informal social security expenditure, making informal expenditure the largest component of social security expenditure at 7.9 of GDP versus formal at 7.8. Given the voluntary nature

¹⁸Tax credits are specified as financial amounts, which increases the value of the benefit to lower income earners and decreases it for high-income earners. A rebate is typically proportional to taxable income. It is therefore lower for lower earners and higher for high-income earners. While an earnings ceiling can be applied to limit the subsidy to high earners, low-income earners remain disadvantaged as they pay little in taxes.

of medical schemes participation and the runaway cost increases experienced, it can be argued that the protection offered through medical schemes is not universal for the income groups covered, and that it should therefore lose its classification as formal social security.

Next to health, old age protection is the largest category of expenditure at 2.8 of GDP in 2018. This is down from 3.3 of GDP in 2000, largely due to a relative decline in private pension pay outs versus other benefit categories in private pension schemes. Non-contributory old age protection has improved from 1.0 to 1.4 of GDP, although the quality of benefits has not materially improved.

Table 32: Consolidated summary of social security expenditure in South Africa by scheme type, contingency and whether the coverage is formal or informal in nature for 2000 and 2018 (R'million) (2018 prices)

Contingency	Expenditure (2018 prices)					
	2000			2018		
	Formal	Informal	Total	Formal	Informal	Total
Health	164 730	0	164 730	396 631	0	396 631
<i>Non-contributory</i>	76 726	0	76 726	197 142	0	197 142
<i>Contributory public</i>	3 533	0	3 533	6 100	0	6 100
<i>Contributory private</i>	84 471	0	84 471	193 389	0	193 389
Illness	441	0	441	313	0	313
<i>Non-contributory</i>	0	0	0	0	0	0
<i>Contributory public</i>	441	0	441	313	0	313
<i>Contributory private</i>	0	0	0	0	0	0
Old age	25 885	63 104	88 989	70 531	68 885	139 416
<i>Non-contributory</i>	25 885	0	25 885	70 531	0	70 531
<i>Contributory public</i>	0	0	0	0	0	0
<i>Contributory private</i>	0	63 104	63 104	0	68 885	68 885
Invalidity/disability	17 266	33 558	50 824	26 090	71 422	97 512
<i>Non-contributory</i>	15 593	0	15 593	22 105	0	22 105
<i>Contributory public</i>	1 673	0	1 673	3 985	0	3 985
<i>Contributory private</i>	0	33 558	33 558	0	71 422	71 422
Loss of support	807	28 116	28 923	3 861	295 062	298 923
<i>Non-contributory</i>	0	0	0	0	0	0
<i>Contributory public</i>	807	0	807	3 861	0	3 861
<i>Contributory private</i>	0	28 116	28 116	0	295 062	295 062
Maternity	1 268	0	1 268	1 040	0	1 040
<i>Non-contributory</i>	0	0	0	0	0	0
<i>Contributory public</i>	1 268	0	1 268	1 040	0	1 040
<i>Contributory private</i>	0	0	0	0	0	0
Children	11 609	0	11 609	60 631	0	60 631
<i>Non-contributory</i>	11 609	0	11 609	60 631	0	60 631
<i>Contributory public</i>	0	0	0	0	0	0
<i>Contributory private</i>	0	0	0	0	0	0
Foster care/Adoption	2 063	0	2 063	5 475	0	5 475
<i>Non-contributory</i>	1 724	0	1 724	5 132	0	5 132
<i>Contributory public</i>	339	0	339	343	0	343
<i>Contributory private</i>	0	0	0	0	0	0

Family protection	7 058	0	7 058	10 668	0	10 668
<i>Non-contributory</i>	0	0	0	1 441	0	1 441
<i>Contributory public</i>	7 058	0	7 058	9 227	0	9 227
<i>Contributory private</i>	0	0	0	0	0	0
Unemployment	4 291	0	4 291	7 531	0	7 531
<i>Non-contributory</i>	0	0	0	0	0	0
<i>Contributory public</i>	4 291	0	4 291	7 531	0	7 531
<i>Contributory private</i>	0	0	0	0	0	0
TOTAL	235 418	124 777	360 195	582 771	435 369	1 018 140
Non-contributory	131 537	0	131 537	356 982	0	356 982
Contributory public	19 410	0	19 410	32 400	0	32 400
Contributory private	84 471	124 777	209 248	193 389	435 369	628 758

Source: Based on (Wits School of Governance, 2020)

Invalidity/disability benefits have seen no material improvement in protection over the period 2000 to 2018, with no structural change in the benefits framework. This reflects the absence of any movement in the design and implementation of new policy frameworks for this contingency, which largely reflects the institutional framework in existence prior to 1994.

Loss of support or death benefits don't have a non-contributory element. Benefits mainly exist in the private (informal) space, with very limited (roughly 0.1 of GDP in 2018) protection offered through public contributory schemes. This benefit

is clearly seen as valuable protection by families with adequate incomes, as the total benefits paid amount to roughly 1.2 of GDP. This is broadly similar to the 1.4 (2018) paid out for invalidity/disability.

All other forms of protection (illness, maternity, unemployment, foster care/adoption, family protection) are relatively small as a percentage of GDP (only 0.5 in 2018) and are provided through public schemes of one form or another, both contributory and non-contributory. Unemployment protection stands out, as it's very large surplus far exceeds its annual expenditure on unemployment (and related) benefits.

Table 33: Consolidated summary of social security expenditure in South Africa by scheme type, contingency and whether the coverage is formal or informal in nature for 2000 and 2018 expressed as a percentage of GDP

Contingency	Expenditure (2018 prices)					
	2000			2018		
	Formal	Informal	Total	Formal	Informal	Total
Health	6.2	0.0	6.2	7.9	0.0	7.9
<i>Non-contributory</i>	2.9	0.0	2.9	3.9	0.0	3.9
<i>Contributory public</i>	0.1	0.0	0.1	0.1	0.0	0.1
<i>Contributory private</i>	3.2	0.0	3.2	3.9	0.0	3.9
Illness	0.0	0.0	0.0	0.0	0.0	0.0
<i>Non-contributory</i>	0.0	0.0	0.0	0.0	0.0	0.0
<i>Contributory public</i>	0.0	0.0	0.0	0.0	0.0	0.0
<i>Contributory private</i>	0.0	0.0	0.0	0.0	0.0	0.0
Old age	1.0	2.4	3.3	1.4	1.4	2.8
<i>Non-contributory</i>	1.0	0.0	1.0	1.4	0.0	1.4

<i>Contributory public</i>	0.0	0.0	0.0	0.0	0.0	0.0
<i>Contributory private</i>	0.0	2.4	2.4	0.0	1.4	1.4
Invalidity/disability	0.6	1.3	1.9	0.5	1.4	2.0
<i>Non-contributory</i>	0.6	0.0	0.6	0.4	0.0	0.4
<i>Contributory public</i>	0.1	0.0	0.1	0.1	0.0	0.1
<i>Contributory private</i>	0.0	1.3	1.3	0.0	1.4	1.4
Loss of support	0.0	1.1	1.1	0.1	1.2	1.3
<i>Non-contributory</i>	0.0	0.0	0.0	0.0	0.0	0.0
<i>Contributory public</i>	0.0	0.0	0.0	0.1	0.0	0.1
<i>Contributory private</i>	0.0	1.1	1.1	0.0	1.2	1.2
Maternity	0.0	0.0	0.0	0.0	0.0	0.0
<i>Non-contributory</i>	0.0	0.0	0.0	0.0	0.0	0.0
<i>Contributory public</i>	0.0	0.0	0.0	0.0	0.0	0.0
<i>Contributory private</i>	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
<i>Non-contributory</i>	0.4	0.0	0.4	1.2	0.0	1.2
<i>Contributory public</i>	0.0	0.0	0.0	0.0	0.0	0.0
<i>Contributory private</i>	0.0	0.0	0.0	0.0	0.0	0.0
Foster care/Adoption	0.1	0.0	0.1	0.1	0.0	0.1
<i>Non-contributory</i>	0.1	0.0	0.1	0.1	0.0	0.1
<i>Contributory public</i>	0.0	0.0	0.0	0.0	0.0	0.0
<i>Contributory private</i>	0.0	0.0	0.0	0.0	0.0	0.0
Family protection	0.3	0.0	0.3	0.2	0.0	0.2
<i>Non-contributory</i>	0.0	0.0	0.0	0.0	0.0	0.0
<i>Contributory public</i>	0.3	0.0	0.3	0.2	0.0	0.2
<i>Contributory private</i>	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
<i>Non-contributory</i>	0.0	0.0	0.0	0.0	0.0	0.0
<i>Contributory public</i>	0.2	0.0	0.2	0.2	0.0	0.2
<i>Contributory private</i>	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	8.8	4.7	13.5	11.7	4.0	15.7
Non-contributory	4.9	0.0	4.9	7.1	0.0	7.1
Contributory public	0.7	0.0	0.7	0.6	0.0	0.6
Contributory private	3.2	4.7	7.8	3.9	4.0	7.9

Source: Based on (Wits School of Governance, 2020)

PART FOUR: FINDINGS

Arising from the data and analysis in this report various findings are summarised in this part of the report. These findings are provided to assist with policy development needed to implement a comprehensive system of social security.

4.1 Social outcomes

South Africa needs to review the apparent structural features of unemployment, inequality and poverty. Out of all countries examined for pre and post tax inequality by the OECD, South Africa is the most unequal out of 44 countries. It is also fourth last in achieving a change in income inequality through redistributive programmes.

As many studies now confirm, income inequality slows economic growth potentially through concentrating consumption in only a small proportion of households and distorting economic development.

South Africa's social outcomes are arguably related to insufficient depth in the quality and comprehensiveness of government policies aimed at redistributing income more effectively.

Internationally comprehensive social security systems are responsible for institutionalising distributions of income that do not only rely on incomes from labour. If left unadjusted incomes from labour fail to address unremunerated work, periods when remunerated work is not possible and/or precarious and where the rewards for work are not fairly distributed.

4.2 Formal social security

The comprehensive nature of social security systems can be judged both on the proportion of the social budget classified as formal as well as the proportion that is redistributive.

Social security systems (which exclude expenditure on education and other basic services) generally make up around 30% of any country's expenditure. South Africa's social security system can be regarded as inadequate in three respects.

- First, the public non-contributory (general tax funded) part of the system, which in 2018 accounts for only 7.3% of GDP (R367 billion), fails to redistribute income sufficiently to address income inequality and adequately smooth consumption.
- Second, public contributory social insurance schemes, which should provide a crucial layer of risk and income protection to income earners and their families amounts to a mere 1.5% of GDP in 2018 (R76 billion).
- Third, private contributory social schemes involve no institutionalised guarantees of access to protection, leaving many income earners vulnerable to sub-optimal coverage and benefits due to the conduct of private actors (particularly employers and private commercial schemes).

4.3 Poverty and inequality and the role of social assistance

Overall, social assistance has not meaningfully improved relative to the scale of poverty and inequality as it exists in South Africa presently and over the period from 2000 to 2018.

Important gaps exist in the social assistance framework, with the following not properly catered for:

- Vulnerable economically active unemployed people from the ages of 18 to 59 who have either never been in formal employment and who no longer qualify for benefits through the UIF;
- The caregivers of children who are recipients of the child support grant;
- Inadequate grant values in respect of the child support grant (they fall below the relevant food poverty line);
- Caregivers of children under foster care, where the inefficient process for determining

eligibility leave many without financial support for extended periods;

- Pregnant women without adequate incomes;
- Child supervision support for working mothers without adequate incomes; and
- Unconditional universal non-specific income support to structurally protect all families from vulnerability arising from inadequate incomes.

4.4 Unemployment

Unemployment protection exists exclusively in the form of the UIF, a relatively shallow social insurance intervention, has a very limited impact on structural unemployment and inequality. There are three reasons for this:

- First, benefits are available only to contributors, excluding that portion of the economically active population that has never worked in the formal economy (where participation in the UIF is mandatory);
- Second, benefits are limited to just under 12 months of income protection, leaving many without income protection if an industry goes into decline or restructures such that the individual takes long to get back into decent employment or if an individual takes long to get back into employment for any other reason; and
- Third, active labour market measures have not been linked to UIF benefits, limiting the ability of retrenched workers to move into new forms of employment.

Addressing structural unemployment therefore requires consideration.

4.5 Healthcare

The South African health system is large, with overall expenditure at roughly 8.8% of GDP. Of this, the public sector stands at around 4.1% of GDP and medical schemes at 4.0%. Out of pocket expenditure is around 0.6% of GDP, down from 1.5% in 1995. Public social insurance arrangements account for only 0.1% of GDP.

The South African health sector performs well in achieving coverage, with low out of pocket expenditure. However it is demonstrably weak in the key areas of performance and fairness. These arise from governance failures in both the public and private sectors. In the former, this results in poorly performing services and in the latter structurally high

cost increases that create affordability constraints for low-income families and pensioners.

The high cost increases in the private sector arise from the fee for service reimbursement mechanism which predominates in the private sector. This causes supplier induced demand which can only be countered with changes in the manner in which the private sector is regulated. It is noteworthy that no significant regulatory reform of the private sector has been implemented since 2004.

The public sector catchment population is roughly 48 million while for those covered by mutual health insurance funds (medical schemes) is around 8.8 million. The public sector catchment population is increasing faster than those covered by medical schemes. This relative growth places a significant strain on the public sector as it is restricted in its ability to match this population growth with increased services.

Using maternal mortality ratios (MMRs) (maternal deaths per 100,000 live births) as a proxy indicator of public sector performance, South Africa performs poorly relative to peer countries. The 2017 MMR stands at 135.0 compared to 42.0 for benchmark countries. When examined from a provincial perspective, a structural difference in performance exists between the Western Cape and all the other provinces.

The quality of public health performance strongly points to failures in the governance framework rather than inadequate resources, which have been improving over the period in question. Health systems typically resolve such problems through the implementation of strong localised governance regimes, decentralisation of decision-making and the removal of political appointees from administrations, organisations and facilities responsible for delivery.

4.6 Old age protection

The system of old age protection in South Africa is fragmented and lacks an overriding strategic policy framework.

Protection exists for people without retirement savings at a very basic level, and a voluntary private system that offers earnings related protection.

A large institutional gap exists for the protection of families that had adequate incomes during their

active working years, but lacked access to a stable savings environment throughout their working careers.

To date government has used tax incentives to encourage participation in private retirement savings arrangements. However, these tax incentives heavily favour high income groups. On a per capita basis the value of these subsidies substantially exceeds the social assistance offered to those without adequate incomes.

Administrative expenditure for private pension funds is also very high, increasing from an estimated 12.1% in 2000 to 21.5% in 2017.

While the tax subsidies allocate significant funds to higher income groups, the administrative costs appear to drain much of this benefit away. Although not conclusive, the high administrative costs, largely in the form of asset management fees, appears to redirect the tax subsidies towards intermediaries and away from beneficiaries.

The overall system of old age protection is in need of significant structural reform in three key areas.

- First, government needs to harmonise policy development for social assistance, social insurance and private coverage.
- Second, government needs to establish the institutional framework for a 2nd tier (or social insurance tier) of earnings related protection. The present institutional framework is too weak (lacks effective capability) to accommodate the required range of support measures.
- Third, the private contributory regime needs regulatory reform to require compliance with institutionalised social protection guarantees (inter alia minimum benefits). Fourth, an anomaly with the private retirement system is the unusual level of advance funding of the benefits for the Government Employees Pension Fund (GEPF) that is underwritten by the tax payer. Internationally civil service funds are partially funded (i.e. accumulate a lesser reserve), and can operate substantially on a pay-as-you-go basis (current revenue funds current benefits).

In 2017 total benefits paid out stood at R94.9 billion with revenue at R142.4 billion. This produced a surplus of R47.5 billion. The underwriting profit of the GEPF structurally

exceeds the employer contribution over time. In 2017 the employer contribution stood at R45.3 billion. The overall funding framework therefore appears to be in need of a structural review. If done, this creates fiscal space for government without harming the ability of the GEPF to finance benefits indefinitely into the future.

4.7 Invalidity

Protection against invalidity is presently not offered through a well-designed system in South Africa.

As with many social security contingencies, protection for invalidity has evolved through a host of narrowly focused programmes which include social assistance, a mix of social insurance arrangements and private insurance. Each arrangement, whether public or private, has their own definition and assessment approach. There is no overarching policy framework and a mixture of departments are responsible with limited cooperation.

4.8 Invalidity and social assistance

Social assistance expenditure on invalidity showed real improvements from 2000 to 2008, which appears to have largely been driven by demand driven by untreated HIV and AIDS infected persons. From the introduction of treatment from 2006 onward, disability expenditure has declined in real terms as beneficiary numbers declined.

The grant value has also increased little in value over time, showing a 12.4% real increase from 2000 to 2018. Over the period 2009 to 2018, the grant improved by a mere 4.4% in real terms.

4.9 Private insurance for death, invalidity and health

Private insurance coverage for disability and death benefits are difficult to determine as the data is poorly captured by the relevant regulatory authorities and a complete picture is not possible. Life insurance policies (for death benefits) however appear to involve around R234 billion in pay outs in comparison to R11 billion for disability products (estimate for 2018). However, there is no way to properly distinguish between the various contingencies in retirement funds and insurance policies. Health policies are a relatively recent development and involve only around R4.0 billion in pay outs (estimate for 2018).

Non-benefit expenditure (largely administrative expenses and profits) expressed as a percentage of contributions is very high and in the case of health insurance, is roughly equivalent to expenditures on benefits.

- In years where information is available in reports (as opposed to an estimate) non-benefit expenditure on invalidity benefits ranges between 16.7% and 31.0% of contribution expenditure.
- Life insurance ranges between 15.8% and 23.9% of contribution expenditure.
- Health expenditure ranges between 51.1% and 57.1% of contribution expenditure. These margins are significantly out of step with that of medical schemes which tend to be around 12.0% of gross contribution income.

The high costs for administration are indicative of market failure which undermines the social and private value of private contributory coverage. This suggests the need for institutional adaptation to address the regulatory failures resulting in this market failure. An improved institutional framework would include both the introduction of a social insurance tier (institutionalised social guarantees) and better regulation.

4.10 Social insurance

Social insurance is under developed in South Africa with total expenditure of 1.6% of GDP in 2018, up from 1.1% in 2000.

From 2000 to the present, there has been no significant changes to the institutional framework or to the mix of contingencies covered.

Four funds make up all of publicly delivered social insurance in South Africa:

- The UIF which accounted for expenditure of 0.4% of GDP in 2018 (down from 0.6% in 2000);
- The Compensation Fund (CF) for occupational injuries and diseases which accounted for 0.1% of expenditure in 2018 (down from 0.2% in 2000);
- The compensation arrangement for mining diseases (Compensation Commissioner for Occupational Diseases or CCOD) operated by

the Department of Health which accounted for expenditure of 0.3% of GDP in 2018 (up slightly from 0.2% in 2000); and

- The RAF which accounted for expenditure of 0.8% of GDP in 2018 (dramatically up from 0.2% in 2000).

In all the funds, administration expenditure has increased dramatically without any apparent improvement in benefits or service offerings. The real increases for the four funds are 77.5%, 119.4%, 147.9% and 78.7% for the UIF, RAF, CF and CCOD respectively.

Overall, the current system of social insurance for South Africa appears to be a neglected area of government policy. A degree of institutional inertia has set in, that prevents any structural shift from the narrowly focused apartheid era institutional frameworks.

4.11 Consolidated social budget

Healthcare expenditure on benefits constitutes the largest social security contingency funded in South Africa at 7.9% of GDP in 2018, up from 6.2% in 2000. This change is due to increased real expenditure in both the public and private sectors.

Old age constitutes the contingency with the next highest expenditure at 2.8% of GDP in 2018, down from 3.3% in 2000.

Expenditure on invalidity is broadly unchanged at around 2.0% of GDP in 2018 with loss of support (death benefits) at around 1.3% of GDP. However, the data is not reliable for the private sector due to weak reporting requirements by the relevant regulators.

All the remaining contingencies range between 0.1% and 0.2% of GDP apart from support for children, which has increased from 0.4% of GDP in 2000 to 1.2% in 2018 due to the child support grant.

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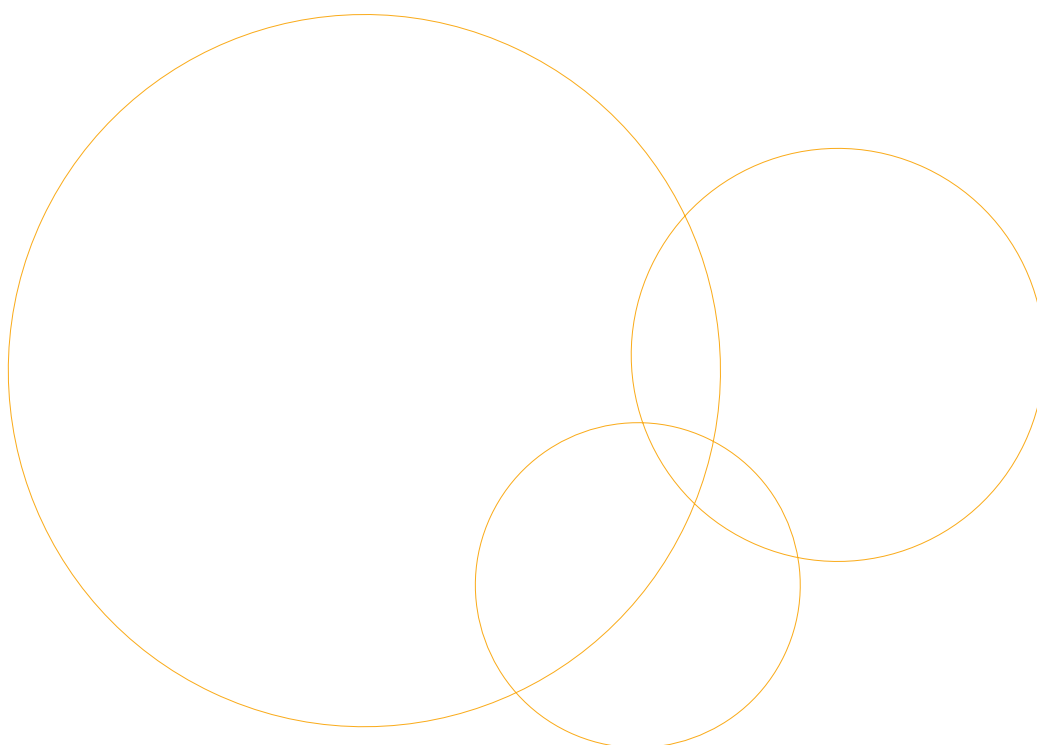
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ANNEXURE A: NOTE ON DATA SOURCES

Multiple data sources were used to compile the information reported in this report. As many data sources involved drawing annual information from annual reports rather than available datasets. The report references the reports accessed for the relevant years used in this report. The relevant time period for this report is 2000 to 2018. Where only a part of this time period was available, only the available information is reported.

The various time series collated for this report are available in an accompanying excel spreadsheet. The references to the relevant source reports are indicated in this report. It should be noted that where the dataset was compiled by the team preparing the report, the compilers are referenced as the dataset authors and the reports accessed to compile the datasets are referenced in the title of the dataset. Where the dataset has been compiled by another organisation, for instance StatsSA, then StatsSA is reported as the author.

Where a table involves a combination of all collated datasets, then reference is made to the complete excel spreadsheet accompanying the report, as this contains all the datasets used.

NOTES

This image shows a full page of blank, lined paper. It features approximately 28 horizontal brown lines spaced evenly across the page, typical of notebook or composition paper. The lines are thin and consistent in color and thickness. There is no handwriting, printed text, or other markings on the page.

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RP183/2021
ISBN: 978-0-621-49519-5