THE FUTURE OF THE INDEPENDENT BROKER & THE EMPLOYEE BENEFIT SPECIALIST CONSULTANT

PROVIDING SOLUTIONS & PLANNING FOR SURVIVAL

The first step in PRAPA Providing Solutions and Planning for Survival is to review the possible impact of NHI, NSSF on the Independent Brokerage and Consulting Practices by reading and understanding the implications of the NHI Media statement by the Minister of Health, unpacking NHI by John Cranke (Regional Head, PSG Konsult Corporate), Selwyn Jehoma (Deputy DG of DSD of the NSSF Interdepartmental Task-Team of Government), an editorial by Daily Maverick's Phillip de Wet, and the "Warning to Government" by Bruce Cameron of Personal Finance on NSSF!

Once you have read this entire document you will have a better understanding of the implications to all the Clients of Independent Brokers and Employee Benefit Consultants as well as the impact of these State Structures on the Financial Services Industry!

NHI - Media statement by Minister of Health: Release of Green Paper on National Health Insurance:

Attendees;

Cabinet colleague Minister Pravin Gordan
Chairperson of MAC Dr Olive Shisana
Director-General of Health Ms Malebone Matsoso

Distinguished guests, Ladies and gentlemen, Many of us use the word "historic" too easily and often without good reason. But these first steps towards establishing national health insurance (NHI) are truly historic: we are building a health system that will offer decent healthcare for all our people. This is a right that large numbers of South Africans, over many generations, have never known.

I need, at the outset, to make it clear that NHI will not happen overnight. This is seen as a 14-year project and the first five years will be a process of building and preparation. On the one hand, we have a massive amount to achieve in uplifting the public health sector. And in the area of private healthcare, we are serious about getting a grip on the costs of care even before NHI kicks in.

The cornerstone of the proposed system of NHI is universal coverage. NHI is a financing system that will ensure the provision of essential healthcare to all citizens of South Africa (and legal long-term residents) regardless of their employment status and ability to make a direct monetary contribution to the NHI Fund.

This is the essence of NHI – although the system may be implemented in different ways in different countries.

<u>What NHI is not?</u>

It is equally important for us to understand what NHI is not.

NHI is not a war between the public health sector and the private healthcare sector – it is not even a competition or a beauty contest between these two healthcare delivery systems. If we view matters in this light, and if we try to tear each other apart, the people of South Africa will be the real losers. The challenge and the intent of NHI is to draw on the strengths of both healthcare sectors to better serve the public.

Yes, it is true that the quality of care in public health institutions is often totally unacceptable and that radical measures are needed to put matters in order. But, at the same time, we need to appreciate the sheer scale of the service provided by public health facilities in ensuring care for 84% of our people who are totally dependent on these facilities for their health needs. In many cases this involves a heroic effort performed day in and day out by men and women in our hospitals.

The private sector is held up as an example of good service and quality of care – and this is mostly justified. What is not justified is the price tag that comes with certain forms of private healthcare provision. This is not only a burden to people using private health services, but a disservice to our country as a whole because it distorts pricing across the board. And, there are clear signs that it is simply unsustainable.

So there are good and bad aspects to both public and private healthcare in South Africa, and the challenge is to get the best out of both systems for the benefit of the public. When you read this Green Paper on NHI you will appreciate that we are making a real effort to design a system that works with the resources we have and builds on these.

This involves new ways of doing things. For example, even if we could afford it, we could not simply take the existing model of private care and extend it to the entire population. The private sector would not cope, it would be overwhelmed. Whether we like it or not, the bulk of South Africa's healthcare infrastructure resides in the public sector and our task is to overhaul it so that people will choose to go to public facilities once they have options.

This may sound impossible, but it can be done– it is far from impossible. Not so many years ago, our public hospitals were the automatic choice of many people who could afford private care but thought it unnecessary. Even today, there are centres of excellence in our teaching hospitals that remind us that the world's first heart transplant was done at Groote Schuur, a public hospital.

We are setting out on a long journey with NHI and at times things will be tough.

We must know that we are driven by an achievable dream and keep that dream in front of us.

Having said this, it is clear that for the NHI to succeed there are two critical things that the country must do:

1. **Improvement of quality of service in public hospitals must be non-negotiable**
2. **Pricing of healthcare in the private sector must be tackled equally seriously.**

I cannot overemphasise this, but clearly without these two the NHI will not be viable.

<u>Anticipating your questions;</u>

On a more practical note, I am going to try and anticipate your questions on the Green Paper and save you the trouble of asking them.

Maybe the most obvious question is:

<u>Why does South Africa need National Health Insurance?</u>

Healthcare is a human right that every one of us is entitled to – this is a widely accepted international principle. This right should not depend on how rich we are or where we happen to live. The right to obtain healthcare is written into our Constitution.

But large numbers of our people continue to die prematurely and to suffer unnecessarily from poor health. Treatable conditions are not being treated on time and preventable diseases are not being prevented.

This is in spite of the fact that government has tried its utmost since 1994 to ensure that everyone in this country has equitable access to necessary healthcare services. There are still serious challenges mainly caused by a skewed healthcare financing system. Without NHI, the burden of disease in the country will not be reduced because the majority of the population – and the section suffering the greatest ill health – will not access good quality healthcare.

<u>Another important question is: What healthcare services will be funded by NHI?</u>

The NHI will offer all South Africans and legal residents access to a defined package of comprehensive health services. The state is committed to offering as wide a range of services as possible. Although the NHI service package will not include anything and everything, it will offer care at all levels, from primary healthcare, to specialised secondary care, and highly specialised tertiary and quaternary levels of care.

<u>Examples of what the NHI package will exclude are:</u>

- **Cosmetic surgery that is not necessary or medically indicated but done as a matter of choice – for instance, botox, liposuction and face-lifts.**
- **Expensive dental procedures performed for aesthetic purposes.**
- **Expensive eye-care devices like trendy spectacle frames.**
- **Medicines not included in the National Essential Drug List except in circumstances where the complementary list has been approved by the Minister of Health.**
- **Diagnostic procedures outside the approved guidelines and protocols as advised by expert groups.**

The benefits provided will cover preventive, promotive, curative and rehabilitative health services. It is important to note that emphasis will be placed on prevention of disease and promotion of health. The present healthcare system places undue focus on curing of disease and performance of procedures when people have developed complications.

<u>You will also want to know: Will the NHI destroy the private sector?</u>

No, the NHI is not intended to destroy the private sector. It will actually make the sector more sustainable by making it levy reasonable fees.
The intention of NHI is rather to make sure that citizens are able to utilise both the public and private sectors in such a way that they complement each other rather than one undermining the other.

At the present moment, private healthcare is only for the rich and mighty. NHI is trying to blend the two in a more sustainable manner that benefits the population.

The presentation of the health Portfolio Committee in Parliament by the private hospitals, medical aids, Council of Medical Schemes and other stakeholders in the past two weeks is encouraging.

Two related questions are: Will private medical schemes be abolished? And Will private healthcare providers be forced to contract with NHI?

It is not the intention of Government to abolish private medical schemes if individuals members wish to keep them. And participation in NHI is solely a matter of choice for the individual healthcare provider. However, those that choose to participate will need to meet certain requirements that will be prescribed under the NHI policy. These will include compliance with quality standards, provision of a package of services that will extend to prevention of diseases and promotion of health, acceptance of capitation as a method of payment instead of fee for service, and appropriate pricing mechanisms.

Then there is the question: If people can afford to buy private healthcare, will they have to participate in NHI?

We need to make a distinction between a citizen participating in the NHI as a contributor and a citizen participating in NHI as a patient. If you earn above a certain income you will be required by law to make a contribution to the NHI Fund. It will not be possible to opt out of this responsibility.

However, as a patient, if you wish to make use of services of a healthcare provider who is not accredited and/or who chooses not to contract to NHI, you would have to pay the provider directly or else maintain medical scheme cover (in addition to making NHI contributions).

One of the central questions is: How will the quality of healthcare be ensured under the NHI?

Quality will be ensured through three mechanisms:

Firstly there needs to be a radical improvement in the quality of services in the public health facilities. This means massive investment in improvement of health infrastructure, both buildings and equipment.

Then, in every single health institution, certain basic core standards must be complied with. To ensure adherence to standards, an independent "watchdog" body called the Office of Health Standards Compliance will be established by an Act of Parliament. The Bill to establish the Office has already been approved by Cabinet, after a process of public comment, and it is ready to enter the Parliamentary process.

And thirdly, there needs to be a radical change to healthcare management within the public healthcare system in line with item 4 of the 10 Point Programme of the Department of Health: "Overhauling the healthcare system and improve its management". Draft regulations will appear in tomorrow's (Friday's) Government Gazette and they will include measures to standardise hospital care across the country and to ensure that managers of different categories of hospitals have specific skills, competencies and appropriate qualifications.

You will probably be keen to know:

What are the processes going forward after the publication of this Green paper? The purpose of this Green Paper is to outline the broad policy proposals for the implementation of NHI. The document is published for public comment and engagement on the broad principles. After the consultation process the policy document or White Paper will be finalised. Thereafter draft legislation will be developed and published for public engagement. After public engagement the legislation will be finalised and submitted to Parliament for consideration. After Parliamentary approval, the Bill has to be approved by the President of the Republic.

What will happen in April 2012?

Piloting of NHI will commence in ten selected districts. The Department of Health is busy conducting an audit of all public health facilities in our country. The selection of the 10 districts will be based on the results of the audit. Consideration will be given to a combination of factors such as the district's health profile, demographics, income levels and other social factors impacting on health, health delivery performance, management of health institutions, and compliance with quality standards.

Will people be required to pay NHI contributions in 2012?

No. In 2012 we will start piloting NHI to help us finalise how the service benefits will be designed, how the population will be covered and how the services will be delivered. A special Conditional Grant will be provided in the 2012 budget to fund the pilot projects.

And looking a bit further down the road: What will happen in the first five years of NHI implementation?

The first five years of NHI will include pilot studies and strengthening the health system in the following areas:

- **Management of health facilities and health districts**
- **Quality improvement**
- **Infrastructure development**
- **Medical devices including equipment**
- **Human Resources planning, development and management**
- **Information management and systems support**
- **Establishment of an NHI Fund.**

Closing comments;

In closing – that is, before taking additional questions – I would like to appeal to everyone to consider that NHI has significance way beyond the field of healthcare. The central challenge to the stability and well-being of our nation is reducing the deep inequality between rich and poor, between privilege and deprivation. This goes to the heart of South Africa's future. NHI is one very meaningful way to reach across the wealth gap and to recognise our common humanity as South Africans ...we all bleed, we all experience pain, we all need decent healthcare."

Thank you very much.

Issued by: Department of Health - 11 Aug 2011

END

John Cranke, regional head, coastal region PSG Konsult Corporate, unpacks the complicated and controversial NHI Green Paper

What is the "Green Paper"?

The green paper outlines the broad policy proposals for the National Health Insurance (NHI) and is published for comment and consultation. Three months have been allowed for this. After this, a policy document, or white paper, will be finalised and then draft legislation will be developed and submitted to Parliament.

What is National Health Insurance (NHI)?

NHI is a healthcare funding system which is aimed at providing universal coverage, i.e. everyone will have access to quality healthcare services and be protected from financial hardships linked to accessing these services. NHI will therefore ensure that everyone has access to a "defined comprehensive package of healthcare services" irrespective of whether they are employed or not.

How and when will it be implemented?

It is envisaged that NHI will be phased in over a 14 year period commencing in 2012. The process has been broken into three phases with the first 5 years dedicated to the building and improvement of the public health sector to improve quality and performance in that sector. In addition, from April 2012, piloting of NHI will commence in 10 districts – these will be selected after the current audit of all public health facilities has been completed.

How will it be funded?

Details of the funding model are not 100% clear. However, it is expected that NHI will be funded from public finances (taxes), mandatory contributions from individuals and employers and partnerships with the private sector. In addition, there is also the potential for co-payments and user charges from individuals. Interestingly, the Minister of Finance stated at the launch of the policy paper that additional taxes on individuals would be a last resort.

NHI contributions will be made by all employed persons, although the level of income above which NHI contributions will be mandatory is not yet known. However, based on the implementation plan in the green paper, it seems unlikely that contributions to NHI will commence in the first phase (5 years). Instead, the first phase of NHI (including its piloting from April 2012) will be funded from existing public finances and a Conditional Grant. More clarity is expected on whether or not NHI contributions will receive favourable tax treatment in October, when Minister Gordhan delivers his medium term budget policy speech.

What is more detail still required on?

- **The income threshold above which contributions to NHI are compulsory**
- **What treatment packages would be covered**
- **As stated above, the detail of the funding model**
- **The role of private healthcare providers contracted to deliver services**
- **Governance and accountability structures.**

What are the challenges to the implementation of NHI?

· The disease burden in South Africa will put the provision of healthcare services under pressure. This refers to:

a. HIV / Aids and TB;
b. maternal, child and infant mortality;
c. non-communicable diseases like high blood pressure, diabetes, chronic heart disease, chronic lung disease, cancer and mental illnesses;
d. injury and violence.

· Countries with national health programmes all tend to have high net incomes, low unemployment and large and stable tax bases, none of which is prevalent in South Africa. This makes Government's objectives regarding job creation all the more critical in order to broaden the tax base.

· Closing the personnel gap will be critical. There is a severe shortage of health professionals in the public sector.

· Improvement of quality of care in public hospitals and in turn engendering confidence in the public healthcare system, is crucial to the success of NHI because it is assumed citizens will transfer voluntarily from the private to the public healthcare systems. The potential for negative fallout if citizens have to pay a compulsory contribution to NHI and also fund their own private medical cover due to an underperforming public healthcare system is something we believe the ruling party will want to avoid at all costs.

· The negative perception created by the periodic labour unrest in the public system may act as an impediment to gaining confidence in the public healthcare system and will therefore have to be dissuaded vigorously in future.

· The central procurement system proposed will be complex and may be prone to corruption.

· The ultimate implementation of NHI will mean every beneficiary has to be issued with a NHI card. Presently no system exists and the logistics and expense of getting this done as a precursor to NHI is significant.

What are the positive factors?

· The green paper has been met in a positive manner with stakeholders indicating their acceptance of the underlying principles of NHI and their willingness to engage constructively in the process.

· The green paper acknowledges the expertise available in the private sector in the areas of administration and management of insurance funds and has indicated that NHI will draw upon that expertise.

· The implementation of NHI will be phased in over a period of (proposed) 14 years and won't be rushed.

· Although the single-funder, single-purchaser publicly administered fund is the preferred model, the green paper does not shut the door on a multi-payer approach – indicating that this will still be explored.

· Medical scheme cover will not be done away with – citizens wanting to pay for this cover over and above their mandatory NHI contributions will be able to do so.

· The proposed risk-adjusted capitation system encourages good quality outcomes and minimises the potential for fraud and over-servicing.

· Reimbursing hospitals according to diagnosis-related groups instead of costs incurred is recognised as a method for analysing quality and reducing risk.

· The strong emphasis on primary care, through a totally re-engineered primary healthcare system, will help shift healthcare from a predominantly curative to a preventative system, with resultant curtailment of downstream costs. The re-engineering process will see the appointment of;

a. **District Clinical Specialist Support Teams;**
b. **School Health Services;**
c. **Municipal Ward-based Primary Health Care Agents**

· The establishment of an independent watchdog body, called the Office of Health Standard Compliance, to monitor whether the required standards are being adhered to.

· The improvement of the public hospitals should result in competition with private hospitals, which will have a positive impact on the price of services in those facilities too.

<u>What does this mean for medical schemes?</u>

It is difficult to predict the future of medical schemes and what their on-going roles will be and how private medical scheme members are going to react, until more is known about the funding and benefits (including quality of care) of NHI. However, what is known at this point is although contributions to NHI will be mandatory (above a still to be disclosed income), you will still be allowed medical scheme membership, but will have to forego tax subsidies.

The Registrar of Medical Schemes, Dr Monwabisi Gantsho, has stated that he will continue to regulate medical schemes until a well-developed NHI is in place, which could take at least 14 years. Thereafter, even if only supplementary "top-up" health insurance products remain, the requirement for regulation will remain.

If pushed to predict the likely implications of NHI on medical schemes we would comment as follows;

· Due to the mandatory NHI contribution, low income earners will in all likelihood leave the medical schemes, with a negative impact on those risk pools as they are generally low-claiming members.

· Medical scheme cover will probably evolve into health insurance based cover, which would mean doing away with, or revamping, the Medical Schemes Act as many of its provisions (Prescribed Minimum Benefits, community rating, fixed solvency levels) would be redundant.

· The emergence of health insurance products to address the gaps in NHI, e.g. medication falling outside of the Essential Drugs List, diagnostic procedures which fall outside the approved guidelines and protocols and private sector providers not contracted to NHI.

Conclusion:

It is impossible to deny that the maladies inherent in the current tiered Healthcare system need to be addressed. We believe that the systematic approach proposed in the green paper is a positive first step in that direction. As outlined above, there are significant challenges to overcome – and the successful ultimate implementation of NHI may rely on concurrent success in other aspects of the broader development plans mapped out for South Africa.

However, we see the proposals as an important "peg in the ground" for the way forward, where success in the first phase proposals alone would make the attempt to reach a fully implemented NHI worthwhile.

END

OVERVIEW OF NSSF INTERDEPARTMENTAL TASK TEAM – 19 JULY 2011!

I received this brief synopsis, on the feedback provided by the Department of Social Development (DSD) of the current situation regarding the comprehensive social pension reform system envisaged by the Interdepartmental task-team (IDTT) of government.

It basically confirms a lot that has been communicated before and a few new "surprises" although it was admitted that still a lot of consultation will have to take place.

The Deputy DG of DSD (Selwyn Jehoma) indicated as follows:-

- **The IDTT has finalised their proposal and will be presenting it to the Inter-Ministerial Committee (IMC) within the next few months, if not weeks. The IDTT consists of the DG's from Labour, Finance, and Social Development.**

- **The IMC is expected to present the proposal to Cabinet before year end. Cabinet will there-after present to Parliament for its normal processes and also release it to the public for comment. Surprising NEDLAC has not been consulted with within the last few years and the DDG has indicated that NEDLAC has also commissioned a study which will form part of the consultative process once government's paper has been released.**

- **The IDTT envisage a consultative period of about 3 to 4 years before the legislation of the new comprehensive social reform system in our country.**

- **The IDTT has proposed a 3-tier system Pension System for SA which I'm sure is not a surprise at all. It is also envisaged that it will be a hybrid system with both a DB and DC element to it.**

- **Tier 1 being a Social Pension which will not be subject to any means test and will form the basic pension to alleviate poverty at pensioner level. Tier 2 will have 2 legs to it: a compulsory contributory pension to which all employed South Africans will contribute. Apparently, the 15% contribution rate previously mooted has been reduced "Surprise" but the DDG was cagey about what the new proposed level would be. The 2nd leg would be a voluntary contribution scheme which employed South Africans can take part in if they do not want to contribute there "excess" contributions to a private pension scheme. The 3rd leg of the system is basically the Pension Fund Industry as we know it currently.**

- **Another surprise is that SARS will apparently not be the collection agent any more. Once again, he was very cagey on this matter and did not in any way wanted to further elaborate on it other than to indicate that this is still subject to change.**

- **Mr. Jehoma further indicated (which is once again not a surprise) that the intention is to reduce the current ±7500 working funds as indicated by the FSB, to about 100 by the time the new system is introduced. Thereafter it is envisaged that the number of funds would be further reduced to about 20 within a 10 to 20-year period.**

- **He also confirmed that accrued benefits of South Africans will not be "touched" by government as there are constitutional rights that will be infringed and they will remain the property of members to which options will be provided.**

- **He further indicated that there is obviously huge political will to ensure the introduction of the new pension reform and that all the departments have bought into the proposal that will be provided to the IMC.**

- **He confirmed that the new system will have a broad, comprehensive and profound impact on the current private pension fund arena as government believe that both the private sector and government has failed in this field.**

- **Also obviously is that government intends "forcing" the industry to drive down costs for risk benefits and administration and it would seem that the legislative route might have to be followed in this respect.**

END

BATTLEGROUND NSSF: LOOMING FIGHT FOR THE SOUL OF FORCED STATE PENSIONS!

Debate around a National Health Insurance scheme is still red-hot, but the next massive financial engineering concept is about to be unleashed, and it will be only a little less contentious. Considering it will be worth at least R3 billion a month and will affect every formally employed South African, you'd expect nothing less.

It's more than three years since talk about a mandatory, government-run pension fund started in earnest, but finally the National Treasury, the department of social development and President Jacob Zuma agree that a framework for the mandatory, government-run pension scheme will be released this year, possibly within months.

And that's when the fun starts. Because with billions at stake, not to mention bureaucratic empires and the future fortunes of huge financial services companies, the details on this one are going to be tricky.

Back in 2007, then-president Thabo Mbeki announced South Africa needed a universal pension fund to make sure citizens saved for their retirement, and to introduce a bit of cross-subsidisation. The idea received a surprisingly warm welcome. The need to rope lower income earners into the pension net is universally agreed after all, and the benefits of a mandatory system, with the SA Revenue Service handling the collection and the benefits of scale behind it, seem clear. In broad theory, the National Social Security Fund is just grand.

Now, however, it is nearly time to discuss the reality, and we'd wager good money that it will go less smoothly.

Based on the latest available tax data there are 3.3 million individual tax payers who will be liable for contributions to the NSSF, 2.8 million of who earn enough to pay the maximum contribution.

That makes for somewhere north of R3 billion a month that will be flowing into the NSSF immediately, through a straight transfer from tax takings. A not-inconsiderable amount of money that will have to be invested somewhere. Who gets to do so, how much of it is poured into potentially job-creating investments rather than ones with higher returns and how much of it can be taken offshore (either to further national interests or manipulate the currency)? Those are just the most immediately vexed structural issues.

If the new draft of the scheme follows the outline first published in 2007, anyone in formal employment who earns R6,250 a month will pay a capped R1,000 a month into the NSSF, with lower income earners paying 16% of whatever they make. <u>However – and this is the sneaky bit – voluntary contributions can be made for up to the first R150,000 in annual earnings, and that would be the default. In other words, the NSSF would claim R2,000 a month from anyone making R12,500 or more a month, unless told not to, in which case it would drop down to R1,000 a month.</u>

For those who earn a significant amount and have already been enticed into pension fund contributions by the tax breaks they offer, or forced into contributions by company policy, that doesn't mean a change in lifestyle. <u>Just a slight change in how their contributions are invested.</u>

Those who earn least, on the other hand, and at whom the entire NSSF is aimed, simply could not afford such a drop in salary. Hence the need for a wage subsidy, an automatic tax break that is implemented along with the NSSF, to offset some of the impact.

But even spending R30 billion a year on such a subsidy would only equate to a small offset for individuals. Under one proposal, a wage subsidy in three tiers, those earning R3,750 a month would still be hit by a R600 a month reduction in what they take home, assuming they have no pension fund or life insurance.

Their final benefit, though, would be roughly equal to those earning as little as R1,250 a month – and who effectively won't be contributing to the NSSF at all. Those who earn between R50,000 and R100,000 a year or so may have reason to be unhappy about that.

The NSSF is designed as a roach trap: money goes in, but never leaves before retirement age. That too will be unpopular. Withholding the cash from a contributor who loses a job, or has medical expenses (assuming they aren't covered under the NHI) or needs to educate a child will be unpopular. On the other hand, making provision for withdrawals means a huge administrative headache, and undermines the argument that retirement saving needs total discipline, regardless of short-term financial needs.

Reducing pre-retirement withdrawals from private retirement funds as well is a government priority, and legislation to that effect could well be introduced before the NSSF.

The combination of an increasingly mobile workforce, the mandatory pension funds run by many companies and rules that allow withdrawal on exiting a pension plan, have made for a lottery mentality among especially younger professionals. Every time they change jobs they strike it rich, because they withdraw their accrued pension savings and spend it on trinkets. That, everyone agrees, needs to be stopped or limited.

But doing so isn't straight forward. In 2008, after the NSSF and withdrawal limits were first proposed, pension funds saw a run on the bank. Those who had put such freed-up pension savings into preservation funds (leaving the money available for withdrawal, but without the tax hit that comes on actual withdrawal) decided it was best to grab the cash while they could. Others scaled down on voluntary contributions, figuring it best to run their own rainy-day funds rather than have money locked down until retirement age.

In the short term, even talking about limiting access actually had a negative effect on the amount of money put towards retirement.

The most long-running fight, however, will be about the nature of the retirement benefits. Unlike private retirement savings, the government has no intention of opting for a defined-contribution scheme, where the final annuity is based on the investment plus growth of an individual's portfolio.

Though the benefit calculation will take into account the amount invested and age of retirement, the NSSF will guarantee investment growth at some level lower than it is likely to actually achieve in the market. Back in 2007 the treasury proposed two ways of handling the excess money accrued: pay it to members as some sort of smoothed bonus, or put it straight back into the fiscus for spending.

If the latter option were followed, it dryly remarked, "the justification for this may be difficult to communicate".

Either way will lead to an outcry about fairness, or lack thereof. Those lucky enough to retire during sustained boom times will receive bigger payouts, a sustained downturn will see younger contributors subsidising older ones, or everyone will be outraged that they had been stealthily taxed. Keeping everyone happy seems possible only by coming up with a formula so convoluted that nobody can understand it.

The original 2007 plan also called for existing pension funds to act as collectors for the NSSF, forking over a portion of the contributions they receive. That is practical for both individuals, who would pay a single premium every month just as before, and the NSSF, which would reduce its own administration and pull a large number of contributors into the net in one fell swoop.

Politically, though, it's dangerous. Those private pension schemes will be accounting to their members every year, showing the return on investment from their private investments versus the defined benefits they can expect from the NSSF. Unless the private schemes really suck at their jobs or markets tank, the comparative NSSF growth will look weak, making for more angry taxpayers.

The pension fund industry (which is fairly advanced and generally well run, not to mention organised enough to engage in some strenuous lobbying) has an entire raft of reasons to be unhappy about the NSSF.

Top of the list is the money that will be diverted from their coffers, both in terms of investments and the management fees they earn. In the long run, though, the NSSF is designed to deny them access to a whole swath of the market. Though they may mostly be ignoring low-income earners at present, nobody likes seeing an untapped reserve snatched away.

Then there is the option, likely to be included in a draft proposal, for anyone to transfer existing pension savings to the NSSF, which should be able to offer cut-throat administrative fees if not guarantee massive growth. And winning individuals back from the NSSF as they move their way up the income ladder into territory where they become viable clients will be tough, perhaps tougher than it is to acquire them as new customers right now.

Will the NSSF be as hard-fought, as controversial as the NHI? Probably not, no; medical care is a touchier subject than retirement savings. But it's not going to have a smooth ride either.

END

NSSF WARNING BY BRUCE CAMERON! 03 SEPTEMBER 2011

The interim board of trustees of the very troubled Private Security Sector Provident Fund (PSSPF) has reported to the Financial Services Board (FSB) and dissolved itself.

The saga of the fund and the experience of the interim board sounds a significant warning to the government in respect of its proposed National Social Security Fund (NSSF), membership of which the government wants to make mandatory for most employed South African residents.

Two years ago the PSSPF was imploding fast. It did not have a legally constituted board of trustees and had been labeled "the worst fund" in South Africa by then Pension Funds Adjudicator Mamodupi Mohlala, because it had about 1 000 outstanding complaints. It was in the process of moving from administrator NBC, and its member records were simply in a mess, with a large number of outstanding death benefit and withdrawal claims unpaid.

The FSB intervened in December 2009 and appointed an interim board with respected pension fund lawyers Jonathan Mort as chairman and Fransisco Khoza as the deputy chairman, backed by 10 trustees nominated by trade unions active in the sector and employers.

Reflecting on his experience as the chairman of the fund's interim board, Mort attributes much of the chaos that existed at the fund, which to some extent still exists, to three main factors:-

- **The inconsistent payment of member contributions by employers on behalf of members. (Inconsistent in terms of payments made and amounts paid.)**

- **Short-term membership of the fund. Due to the nature of the industry, employment terms tend to be short and so too is membership of the fund. In the case of the PSSPF, membership is an average of 2.4 years, with only one percent of members reaching retirement, making the fund a short-to-medium savings arrangement with death and disability assurance benefits, and not a retirement fund.**

• An inefficient computer administration platform, with this compounding the effects of inconsistent payments and short-term membership.

It is these three factors that government will have to consider very carefully when it implements the NSSF, as the proposed fund will have much the same profile as the PSSPF: a large number of employers which each have, mostly, a relatively small but fluid workforce.

It is with the small employers, and those employers with a high turnover of staff, where the problems can lie, unless there is a very efficient administration system and an equally efficient enforcement system ensuring that contributions are paid in full and on time.

The PSSPF's interim board found that non-payment or late payment of contributions by employers was not necessarily done with male fides. Many of the employers simply run hand-to-mouth operations. If they are not paid by clients then they are short of money to pay contributions on time, if at all.

The PSSPF is set up in terms of the Labour Relations Act. All security officers are required to be members with limited exemptions.

According to the Private Security Industry Regulatory Authority there were 387 273 people employed in the industry by March 2010 and 7 459 security companies.

But the monthly average number of employers from February to June this year was substantially lower. There were 555 employers who submitted contributions for 148 000 members; 318 employers who contributed without submitting the schedules of members in their employ; and 59 who submitted schedules of employee members but no contributions.

Mort says the interim board found "chronic non-compliance with the compulsory participation requirement". The miss-match of employee member schedules and contributions is a "massive challenge monthly to reconcile not only the deposits relating to current contributions but also arrear contributions".

The late payments impact on claims being made against the fund by members for both benefits on withdrawal from the fund or for assurance benefits when members die in service or are disabled.

Because of the problems with the payment of benefits, the interim board says, many employers resist participation in the fund.

The problem of administration is compounded by the fact that fund members pay many small amounts that need to be tracked.

The average annual pay of a security employee in February 2010 was a mere R26 027 and the average fund credit was R4 297, with a contribution rate of 7.5 percent of total pay being made by the employer and/or employee.

Mort says that because the average annual salary is so low, there is a desperate need for the withdrawal benefit to be paid in cash, rather than preserved, so that the member can survive until employment is found again. It is quite possible that this is typical of many in formal employment in South Africa. This highlights the problem of mandatory preservation of retirement savings.

The board found little resistance from fund members to fund membership, as the fund is seen as providing cheap death and disability benefits as well as funeral benefits. This is particularly important where many members may not survive to retirement.

The fund had a history of non-adherence to fund rules, problematic administration and poor governance, which the interim board resolved to a large extent.

Mort says the administration difficulties of the fund were, apart from the difficult environment in which it operated, due also to the inappropriateness of the administration platform, known as Ben-e-fit, owned by a company called SouthernX Software Solutions, on which the fund had been administered since inception.

The interim trustees decided to move from this computer administration platform to that of the new administrators of the fund, Absa Consultants and Actuaries, providing a litany of reasons for their decision.

The interim board and the FSB have done much to correct the underlying faults with the fund but conclude that the fund remains high-risk for many reasons.

The interesting thing about all this is whether the PSSPF will disappear into the government's proposed NSSF, along with many other retirement funds.

Although it would seem to fit exactly the type of fund which should be folded into the NSSF, the historical and extensive involvement of unions in this fund may make that politically difficult.

Whatever happens, it is absolutely imperative that the government ensures that what transpired at the PSSPF is not duplicated with the NSSF.

It must ensure a world-class administration system and platform; and must ensure that there is an efficient collection and benefit payment system.

END

WHAT IS PRAPA?

Our Vision is to develop PRAPA as the preferred point of entry to the Business Owning and Professional Community as well as Individuals in South Africa for sound risk analyses and wealth management solutions via a Network of focused and knowledgeable Independent Financial Practitioners (IFP's).

Our Mission is to grow our committed and suitably qualified Professional Independent Financial Practitioner Membership (IFP's) who will render a holistic risk and wealth management solution service to our clients in South Africa with Honesty, Integrity and Transparency.

Our Clients are Business Owners, Professionals, Sole Traders, SME and SMME Owners, Corporate Entities and Individuals that require an analysis of "All Risks" that will directly impact on the building and protection of their Wealth Management objectives.

<u>Our Compliance and Knowledge Objectives:</u> PRAPA Members are committed to complying with all aspects of FAIS Act licensing requirements, to continually improve appropriate educational levels and knowledge of directly and indirectly related subjects that impact on their Clients, evaluate a wide range of suitable financial products and services, increase knowledge of Business Risk and Wealth Management Solutions in partnership with a multitude of Corporate FSP's that will ensure a high degree of Professional Expertise further enhanced by attending PRAPA and Industry Workshops as well as by regularly networking with fellow PRAPA Members at Local Advisory Forums.

<u>Our Long Term Due Diligence Objective</u> is to ensure that every Corporate Financial Service Provider has undergone an Independent Professional Due Diligence Process with regard to their Corporate Financial and Governance Structures including their Products and Services as well as their incorporation of King III Code of Governance that may be promoted by PRAPA Professional Financial Practitioners!

Derek Smorenburg

Chairman of the Professional Risk Analysis Practitioner Association

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