SOUTH AFRICA

Prepared by Momentum.

I SUMMARY

Social Security

Eligibility	Social Security does not exist in the traditional way. Various benefits are paid subject to qualifying means testing. Only South African citizens or permanent residents can apply.
Retirement Age	60 M/F There is no formal retirement age in South Africa, although to become eligible for a state pension, as of April 2010, the pension age for both males and females is 60.
Contributions	None, it is paid out of general government revenue.
Retirement Benefits	The maximum monthly old age pension is ZAR 1,410. Those over the age of 75 will receive ZAR 1,410 plus an additional R21. The benefits are adjusted from time to time.
Disability Benefits	The maximum monthly disability pension is ZAR 1,410. Benefits are adjusted from time to time.
Death Benefits	A surviving spouse is entitled to a lump sum and pension equal to two times and 40% respectively of the monthly pension to which the employee would have been entitled if 100% disabled. Each child is entitled to 20% of the pension if the employee was 100% disabled. There is an overall cap on pensions payable.
Medical Benefits	South Africans obtain healthcare either through the public health system or contributory medical schemes. Although there is no national health scheme yet, there are plans to begin trials in rural areas and comprehensive implementation thereafter. Government provides free medical services to nursing mothers, children under 5, and the disabled.

SOUTH AFRICA

Private Benefit Plans

Eligibility	Usually compulsory to join benefits plan upon commencement of permanent full time employment.
Retirement Age	There is no formal retirement age in South Africa; it is determined by the employer; many companies use 60, 63 or, most commonly, 65.
Contributions	Employee's contributions to a pension fund: Tax deductible up to 7.5% of income.
Retirement Benefits	Can either be defined benefit – usually 70% - 80% of final two years' average salary – or defined contribution, based on accumulated employee and employer contributions.
Disability Benefits	Permanent Health Insurance: Payable upon incapacity of member to engage in occupation.
Death Benefits	If no spouse's pension is payable, a lump sum death benefit of anywhere from one to ten times annual salary is payable upon death in service. If a spouse's/orphan's lump sum death benefit is payable, this would be capped at the minimum of twice annual salary or ZAR 1mil. A spouse's/orphan's pension payable on member's death is capped at 100% of member's annual salary.
Medical Benefits	Frequently provided by companies covering employees and family (spouse and children).
Vesting	Members' own contributions are returned together with interest earned. The amount of interest depends on the portfolio invested in.

Taxation

Employer Contributions	Private benefit plans: Deductible up to 10% of employee's salary. Higher amount up to 20% permitted by SARS (South African Revenue Service), in terms of departmental practice.
Employee Contributions	Pension funds: Deductible.
Benefits	Taxed based on a table which is usually different for retirement or resignation from a pension fund.

II INTRODUCTION

Country Statistics

Population/ growth rate	48,375,645 (July 2014 est.) / -0.48% (2014 est.)	
Age structure * 0-14 years: 15-24 years: 25-54 years: 55-64 years: 65 years and over:	 28.3% 20.2% 38.2% 7.1% 6.1% (2014 est.)	
GDP purchasing power parity* Real growth rate Agriculture Industry Services	USD 595.7 billion (2013 est.) 2% (2013 est.) 2.6% 29% 68.4% (2013 est.)	
Unemployment rate	24.9% (2013 est.)	
Inflation rate	5.8% (2013 est.)	
Annual gross salary Semi-professionals Professionals Management Legal minimum wage per month	in ZAR General: n.a. Junior: n.a. Lower: n.a. For domestic workers it ranges from ZAR 7.65 to ZAR 8.95 per hour depending on job location	 Skilled: n.a. Senior: n.a. Upper: n.a.
Exchange rate on February 27, 2015 Currency: South African Rand	1 ZAR = 0.0869 USD 1 ZAR = 0.0776 EUR	

* CIA – The World Factbook, January 2015

Legislation and Insurance Market Update in Brief

No major changes in 2014.

III SOCIAL SECURITY

Background Information

South Africa has principally the following Social Security benefits:

Social Assistance Act

A number of non-contributory social grants are paid out of current revenue by the state to individuals who meet certain requirements. Social Assistance is provided in the form of:

- An old age grant
- A disability grant
- A war veterans grant
- A care dependency grant
- A foster child grant
- Child support grant
- Grant in aid
- Social relief of distress

The most important factor to be eligible for a grant is the financial position of a person applying for social assistance. The reason is that grants are only awarded if the applicant's financial resources are below a certain level. In determining whether an applicant qualifies for a grant, and if so, to what extent, the income and assets of the applicant and spouse or the concerned foster child are assessed.

The means-tested income support provided by the South African system is at a "flat rate".

Compensation for Occupational Injuries and Diseases Act

Compensation funds providing cover for medical and hospital costs, compensation for disability as a result of work-related injuries or disease, and survivor benefit in the event of death in the course of employment.

Unemployment Insurance Act

The Unemployment Insurance Act provides for the establishment of a compulsory contributory Unemployment Insurance Fund for all individuals employed in the formal sector. All workers who work for more than 24 hours per month must contribute to the fund. It is illegal for employers not to make these deductions from the worker's earnings. Contributions to the fund must be made by employer and employee. Workers are able to claim benefits if they lose their jobs. The Unemployment Insurance Fund provides short-term income replacement in the event of unemployment, short-term sickness, maternity, adoption of a child and death.

Eligibility

Applicants must be citizens or permanent residents of South Africa at the time of application.

Contributions

The State Social Security grants are paid out of general government revenue.

The workers' compensation system relies on employer contributions that vary according to the number of employees and the type of work.

The Unemployment Insurance Fund consists of accumulated contributions made at rates determined from time to time. Current rate is 1% each from employees and employers. The government also contributes to this fund.

Retirement Benefits

Retirement Age

Normal retirement:	60M; the retirement pension age for males in South Africa was reduced from 65 in 2008 to 60 in April 2010.
	60F; the female retirement age remains at 60.

Qualifying Conditions

To qualify for an Old Age Grant, the applicant:

- Must be a South African Citizen, or a permanent resident
- Must be resident in South Africa at the time of application
- Must be 60 years or older (M/F)
- Must comply with the means test (i.e. both applicant and spouse)
- Must not be maintained or cared for in a State Institution
- Must not be in receipt of another social grant; and
- Must not earn more than ZAR 49,200 per annum or own assets worth more than ZAR 831,600, if single
- Must not earn a combined income of more than ZAR 99,840 per annum or own combined assets of over ZAR 1,663,200, if married
- Must submit a 13-digit bar coded identity document

Benefits

The maximum amount that an eligible person will get is ZAR 1,410 per month. If they are older than 75, they will receive ZAR 1,431.

Disability Benefits

Qualifying Conditions

To qualify for a Disability Grant, the applicant:

- Must be a South African Citizen, or a permanent resident or refugee
- Must be resident in South Africa at the time of application
- Must be between 18 to 59 years
- Not earn more than ZAR 49,200 if you are single or ZAR 99,840 if married.
- Not have assets worth more than ZAR 831,600 if the individual is single or ZAR 1,663,200 if they are married
- Must submit a medical/assessment report confirming disability
- Must meet the requirements of the means test
  (based on asset and income thresholds for both applicant and spouse)
- Must not be maintained or cared for in a State Institution
- Must not be in receipt of another social grant and
- Must submit a 13-digit bar coded identity document

Benefits

The maximum Disability Grant amount is ZAR 1,410 per month.

Medical/Health Benefits

In South Africa there is no national health scheme.

The government implemented a program of free medical services targeted at nursing mothers, pregnant women and children under the age of 5.

The government continued its implementation of the National School Nutrition Program with its aim to prevent and manage malnutrition amongst children. Nutritional guidelines for people living with HIV and AIDS have also been developed.

Primary health care services have been made available free of charge at state health care facilities. This only applies to South African citizens and their dependants who are not members of a medical aid scheme.

Sickness and Work Injury Benefits

Qualifying Conditions

The Compensation for Occupational Injuries and Diseases Act No 130 of 1993 provides for all employees' protection regardless of earnings.

Benefits

The Act provides free medical attention for up to two years in addition to compensation for loss of wages to persons injured or disabled in the course of employment, and compensation for loss of wages to surviving dependants of persons killed in the course of employment. Benefits will also be paid should the employee contract an occupational disease in the course of employment. Benefits are payable from a fund built up from compulsory contributions by employers.

Unemployment Benefits

Qualifying Conditions

To qualify for unemployment benefit the person must have made 13 weeks' contributions in the 52 weeks immediately prior to the onset of unemployment. The person must also be capable and available for work and must also have reported to an employment exchange.

Benefits

The employer pays unemployment benefits in the event of unemployment due to termination of the employee's contract of employment. The level of benefit ranges from 38% for highly paid workers to 60% for lower paid workers (as a percentage of salary). Benefits are paid if unemployment continues for more than 14 days. Claimants will be paid a maximum of 238 days benefits, in any 4-year period, if unemployed.

Other Benefits

Maternity Benefits

Coverage is funded though the unemployment insurance provision. Benefits are granted for a total of 121 days. Contributions to the fund must have been made for 18 of the 52 weeks before confinement.

Taxation

Contributions

Employer contributions for workers' compensation, skills development and unemployment insurance are tax-deductible. Employee unemployment contributions are not deductible.

Benefits

Benefits are treated as income and taxed accordingly.

Other Information

Reciprocal Social Security Agreements

The Netherlands

IV PRIVATE BENEFIT PLANS

Background Information

Virtually all employee benefits are provided by the private sector since social security benefits are minimal. It is not compulsory for an employer to provide retirement benefits, but tax incentives exist. Social security is not normally integrated with private benefits.

Almost all medium and large commercial and industrial companies in South Africa participate in a retirement scheme. Partly as a result of the increasing awareness of the need to provide for retirement income, and partly because for some time simplified low cost contracts have been available from life offices, many small employers (under 20 employees) are also participating in retirement schemes.

However, recent legislative changes have resulted in a steep increase in the cost of employee benefit arrangements and this is likely to impact on the viability of small schemes. AIDS is also increasing the cost of risk benefits (notably death and disability) in South Africa, as insurers and pension schemes are forced to load for the increased mortality and morbidity it causes.

The market is very competitive in South Africa, in particular for group life and permanent health insurance. Profit sharing is not common as most brokers appear to prefer to sell the lowest possible non-profit rate. Commission on group business is limited by government regulation, starting at 7.5% on the first ZAR 142,000 of annual premium income and reducing on a graded basis to 1% of premium income in excess of ZAR 1,021,000. If a scheme is completely new to the industry an introduction commission of an amount of the lesser of ZAR 5,000 or 7.5% of the annualised contributions of that year is payable in the first year.

Pension Funds Act

The Pension Funds Act No 24 of 1956 regulates funds providing for retirement benefits.

Regulations to the Pension Funds Act are aimed at:
- Stricter supervision of funds
- Increased protection of members

The major impact of these regulations is on underwritten funds, as they bring the requirements relating to these funds closer to those relating to private funds.

Investment Regulations

Regulation 28 allows a fund to invest its assets in foreign asset holdings, up to certain limits. .

The Long-Term Insurance Act

The definition of long-term policy in the Long-Term Insurance Act No. 52 of 1998 provides for the following policies:
- Disability
- Health
- Sinking fund (e.g. endowment)
- Assistance (e.g. funeral policies)
- Life
- Fund (issued to a fund)

Insurers need to be authorised to provide the different policies. An important consequence is that insurers can now provide stand-alone disability policies (not just accelerated death benefits). The act also contains improved policy protection rules and disclosure requirements, with the objective of protecting the consumer more effectively.

Policyholder Protection Rules

These rules were introduced in order to comply with section 62 of the Long-Term Insurance Act. The rules provide extensive protection measures for consumers of long-term insurance products sold through direct marketing, and also provide rules on assistance business policies to protect members' interests.

The Employment Equity Act

The purpose of the Employment Equity Act No 55 of 1998 is to promote equal opportunity and fair treatment in employment through the elimination of unfair discrimination and to implement measures to redress the disadvantages in employment experienced by designated groups, in order to ensure their equitable representation in all occupational categories and levels in the workforce. The "Code of Good Practice: Key Aspects on the Employment of People with Disabilities" was introduced in August 2002 and forms part of the Employment Equity Act - recorded in section 54(1) (a). This code protects people with disabilities against unfair discrimination in the workplace and directs employers to implement measures to redress discrimination. The code is not an authoritative summary of law but rather a guide for employers and employees on promoting equal opportunities and fair treatment for people with disabilities as required by the Employment Equity Act.

The Medical Schemes Act

The Medical Schemes Act No 131 of 1998 prohibits the exclusion of any applicant from membership, subject to prescribed conditions, except for a restricted membership scheme as provided by the act, for the exclusion of any applicant who would otherwise be eligible for membership to a restricted membership scheme and for the imposition of waiting periods other than as provided for in the act. The act was set up to make provision for the registration and control of certain activities of medical schemes, to protect the interests of members of medical schemes, and to provide measures for the co-ordination of medical schemes. Substantial changes to this act were necessitated by the persistent rise in health care costs, which have made traditional medical aid schemes unaffordable.

Financial Advisory and Intermediary Service Act

Effective consumer protection is being achieved through the Financial Advisory and Intermediary Service (FAIS) Act, which became law in November 2002. Various parts of the act came into operation on a staggered basis and the main provisions of the act which made it compulsory for financial advisors to be registered with the FSB came into operation in September 2004. The Act aims to reduce improper selling of financial products and services by requiring the registration and regulation of financial advisers. It enforces a code of conduct for financial brokers and demands the maintenance of proper records of advice given to clients.

Eligibility

Most schemes make this compulsory at the start of full-time, permanent employment. There are often different schemes for different classes of employee as well.

Contributions

Employees and employers contribute towards pension funds in terms of the rules of the fund.

Most new pension funds set up by insurers are operated on a deposit administration or managed fund basis. There are a very small number of funds still using pure endowment or deferred annuity funding methods, but these are rapidly being converted to more modern methods.

Very large companies tend to operate their funds on a self-administered basis, the administration being done in-house, and the actuarial and investment functions handled by consultants and merchant banks respectively.

Valuation requirements are the same for self-administered and insured funds.

Self-administered funds frequently put part of their assets with insurers and/or assign the management of investments to specialist firms.

Retirement Benefits

Retirement Age

Normal retirement: 60M/F (this could differ by fund)

The recommended retirement age for males has been reduced from 65 to 60.

Early and late retirement is permitted, subject to the rules of the fund.

Benefits

Employers have the choice between a defined benefit fund and a defined contribution fund.

- Under a defined contribution fund, both employer and employee contribute a fixed percentage of salary to the fund. In this case, the member carries the risk of market crashes and falling interest rates.
- Under a defined benefit fund, the pension is usually 70% to 80% of the final average salary, although this amount varies in the industry from 60% to 100%. The average is made up of the two years preceding retirement. Often guaranteed minimum pension-payment periods are built in; 5 years is typical. The employer has to finance any negative fluctuations in benefits due to falling interest rates and lower returns to meet the promised benefit. Up to 33% of the pension may be commuted.

Vesting

Members' own contributions are returned together with interest earned, the rate depending on the portfolio invested in. A trend towards enhanced withdrawal benefits, particularly in cases of redundancy, is to pay the member's share of the fund (employee/employer contributions together with fund growth).

Disability Benefits

Permanent Health Insurance

Permanent Health Insurance provides a monthly income payable in the event of disability. Payments cease when the member is no longer deemed disabled, on death, reaching termination/retirement age (whichever occurs first), or when failing to comply with any rehabilitation agreement. On retirement, the members are entitled to receive retirement benefits if they are members of a retirement fund, or they will have to apply for a state pension, which is subject to a means test.

Examples:

A typical income disability benefit would be 75% of monthly salary up to a maximum of ZAR 150,000.

More recently, disability benefits of 100% of monthly salary up to a maximum of ZAR 150,000 are also being offered in the market.

An alternative plan might provide cover of up to 100% of the first ZAR 12,000 of monthly salary during the first two years of disability, thereafter reduced to 75% of the first ZAR 12,000 of monthly salary, plus 50% of the balance of the salary. This remains subject to a maximum benefit of ZAR 15,000 per month.

Lump Sum Disability Benefit/PTD

The lump sum disability benefit is payable in the event of permanent and total disability.

Death Benefits

Death before Retirement

If no spouse's pension or orphan's pension is provided, a lump sum death benefit is typically three times the annual base salary, but can range from one to ten times, depending on the rules of the fund. If applicable, a spouse's pension usually ranges between 40% and 50% of annual base salary, but can vary. The benefit is typically capped at 100%, the remainder of which is divided amongst a maximum of 4 orphans. The number of schemes offering spouse's and children's pensions have decreased in recent years. A higher proportion of larger funds pay spouse's and children's pensions as compared to smaller funds.

Death after Retirement

A spouse's pension of 50% of old age pension prior to commutation is paid. Often a small lump sum is provided to cover funeral costs; however, this is not encouraged by the authorities.

A very noticeable trend is to replace the widow's pension with a spouse's pension which is payable to the surviving spouse irrespective of the sex of the plan member. This is in line with the equality clause in the South African Constitution.

Sickness Benefits

The risks are covered by The Compensation for Occupational Injuries and Diseases Act No 130 of 1993 (see III Social Security).

Medical/Health Benefits

Private Health Plans

As of November 2010, there are 107 schemes registered with the Council for Medical Schemes of South Africa. These schemes are subject to close government supervision. A sizeable portion of the economically active population including their dependants is covered either individually or on a group basis.

An employer is not compelled to provide a medical aid scheme. But once an employer has arranged one, membership usually becomes compulsory for all employees, or whichever categories of employees have been selected for cover.

Medical Schemes Act

The Medical Schemes Act allows great flexibility in the products which may be provided.

However, all medical aid schemes have to provide cover for the Prescribed Minimum Benefits, i.e. for the listed life-threatening diseases and chronic conditions. There are various recommended fees (including fees recommended by the medical profession) and a medical scheme is able to choose to pay any amount or percentage of these fees. Previously, members had a free choice of private doctors, clinics and pharmacists, but the new act allows medical schemes to deliver medical services themselves to members. Medical schemes, therefore, will be (subject to certain other statutory limits) entitled to operate on their own or in conjunction with medical practitioners, pharmacies, hospitals or clinics.

Life Insurers' Health Products

Life insurers have developed products to allow employers to set up schemes for benefits for an employee suffering dread diseases, for hospitalization and terminal illness. Because of the rising costs of medical care, these products are growing in popularity. The latest trend shows that a wider range of conditions is covered by these products and varying benefits are paid depending on the severity level of the condition diagnosed.

Work Injury Benefits

Workers Unions Provident Funds

Due to increasing unionisation, there has been a demand from workers' unions for provident funds (funds providing lump sums on retirement). Typically, the worker contribution rate is 5% to 6% while the employer rate is 7% to 12%. The employer also pays the costs of risk benefits which usually include scale disability benefits and funeral benefits for the member and the family. Workers require representation as trustees with an equal number of worker- and company-appointed trustees. On retirement, the entire accumulated member and net employer contributions, with full fund yield, are paid out as a lump sum.

Other Benefits

General

Many large employers now run a pension fund for monthly salaried personnel and a provident fund for weekly paid workers.

SwissLife

Housing Loans

Demands from workers that funds address real needs and invest in socially desirable areas are leading to increasing interest in the provision of housing loans by funds to members. Such loans are permissible under existing legislation. Insurers are also providing housing loans to fund members, and there have been moves by life insurers and other financial institutions to develop innovative solutions utilizing pension fund resources.

Taxation

Before tax concessions may be claimed under a pension fund, the rules of the scheme have to be approved by the South African Revenue Service (SARS).

Employer Contribution

As of March 1, 2012 an employer's contribution to retirement funds on behalf of an employee will be a taxable fringe benefit in the hands of the employee. From that date individuals will be allowed to deduct up to 22.5% of their taxable income for contributions to pension, provident and retirement annuity funds with a minimum annual deduction of ZAR 12,000 and an annual maximum of ZAR 200,000.

Employee Contribution – Compulsory

Pension contributions of up to 7.5% of income or ZAR 1,750, whichever is greater, are tax-deductible.

Employee Contribution – Voluntary

Additional voluntary contributions of up to ZAR 1,800 per annum (only in respect of past service) are tax-deductible.

Benefits

All pensions are taxed as earned income. The taxable income is determined after deducting a lifetime exemption of ZAR 500,000, taxed at 0%. Thereafter one is taxed as follows on retirement:

- Any amount between ZAR 500,001and 700,000 is taxed at 18% of taxable income above ZAR 500, 000
- Any amount between ZAR 700,001 and ZAR 1,050,000 is taxed at ZAR 36,000 + 27% of taxable income above ZAR 700,000
- Lump-sum amounts in excess of ZAR 1 050,000 will be taxed at ZAR 130, 500 + 36% of taxable income above ZAR 1,050, 000

On withdrawal from a fund where a cash benefit is taken, the taxable income is determined after deducting a lifetime exemption of ZAR 25,000 taxed at 0%. Thereafter one is taxed as follows:

- Any amount between ZAR 25,501 and 660,000 is taxed at 18% of taxable income above ZAR 25,500
- Any amount between ZAR 660,001 and 990,000 is taxed at ZAR 114,300 + 27% of taxable income above ZAR 660,000
- Lump-sum amounts in excess of ZAR 990,000 will be taxed at ZAR 203,400 + 36% of taxable income above ZAR 990,000

Taxation of Funds

Tax on the monthly gross interest and net rental income received by or accrued to retirement funds was abolished on March 1, 2007.

Retirement annuity deductions between the sexes have been equalised, resulting in more tax-deductibility for married women.

The proceeds of the contract can only be drawn after the age of 55, and at least 66% must be in the form of a pension.

Deferred Compensation

If an employee is paid a lump sum gratuity by the employer at retirement, income tax legislation allows the first ZAR 30,000 thereof to be tax-free and the balance to be taxed at average rather than marginal rates. High paid employees therefore have a strong incentive to forgo salary increases in return for gratuities on retirement. Such gratuities are generally provided for by means of insurance policies, and investment growth on the policy's underlying investments is often included in the eventual gratuity. Premiums paid by employers towards these policies are currently tax-deductible.

Double Taxation Agreements

Algeria, Australia, Austria, Belarus, Belize, Belgium, Botswana, Brazil, Bulgaria, Canada, Chile, China, Chinese Taipei, Congo, Croatia, Cyprus, the Czech Republic, Denmark, Egypt, Ethiopia, Finland, France, Gabon, Germany, Ghana, Greece, Grenada, Hungary, India, Ireland, Iran, Ireland, Israel, Italy, Japan, Kenya, Korea (Republic), Kuwait, Lesotho, Luxembourg, Malawi, Malaysia, Malta, Mauritius, Mexico, Mozambique, Namibia, the Netherlands, New Zealand, Nigeria, Norway, Oman, Pakistan, Poland, Portugal, Romania, Russia, Rwanda, Saudi Arabia, the Seychelles, Sierra Leone, Singapore, Slovakia, Spain, Sudan, Swaziland, Sweden, Switzerland, Tanzania, Thailand, Tunisia, Turkey, Uganda, Ukraine, the United Kingdom, the United States of America, Zambia and Zimbabwe.

Double Death Duties

Reciprocal agreements to mitigate the effects of double death or estate duty exist between South Africa and the following foreign states: Botswana, Lesotho, Swaziland, the United Kingdom, the United States of America, and Zimbabwe.

Other Information

Pensionable Service

Pensionable service is considered to be the complete years and months beginning from the date of membership of the retirement fund.

Divorce

The pension interest of a party to a divorce action is deemed to be an asset in the estate for determining the patrimonial benefits to be awarded. The pension interest is defined to be the member's withdrawal benefit at the date of divorce.