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The Effect of Recent Legislation Changes in the Employee Benefits Arena



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Agenda

1. NHI

2. NSSS

3. Tax Treatment of Group Risk Contributions

4. Tax Treatment of Retirement Fund Contributions



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NHI – The Big Question

“It is not a matter of ‘if’ there will be a National Health Insurance in South Africa but ‘when’

- Dr Zweli Mkhizi, ANC Health Sub-Committee Chairman



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NHI – Rumours

“Latest estimates are that NHI will cost South Africa R376 Billion!”



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NHI - Rumours

“It will be funded by removing the tax benefit for members on their medical scheme contributions”



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NHI - Rumours

“It will be funded by increasing VAT to 15%”



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NHI - Rumours

“NHI will be phased in over the next 14 years”



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NHI – Medical Schemes

“Please understand you can not quote me on what I have just told you if you are going to talk about it in a presentation! I will send you an email that will give you all the ‘nice’ answers to your questions.”



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NHI – Medical Schemes

“Do you want the official position of on NHI or
can I tell you what I really think about it?”



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NHI – Medical Schemes

**“It is not something we are too worried about at
because we have no clue how they are going to be able to
fund it.”**



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NHI - Government

Department of Health's Performance Plan 2011/2012

published on 10 March 2011:

- **Actual/Audited Performance:**
 - Draft Policy Document presented to Cabinet Committee
 - Cabinet Committee requested revision of document
- **Estimated Performance:**
 - Drafting of Policy Legislation



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NHI - Government

Department of Health's Performance Plan 2011/2012

published on 10 March 2011:

- **Medium Term Targets**
 - 2011/2012 – NHI pilot sites established and funding model developed
 - 2012/2013 – Facilities in preparation for NHI accredited institutions
 - 2013/2014 – Phased implementation of NHI



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NHI - Facts

- **First proposed in SA in 1944 by the Gluckman Commission**
- **No Government White Paper on NHI has been released yet**
- **The issue is sitting with the Ministerial Advisory Committee**
- **NHI proposals only exist as outlined in ANC Party Documents**
- **Changing views on how NHI will operate**



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NHI – Main Elements

- Use of a single, publicly administered fund to purchase comprehensive health care services mainly from public facilities
- Primary Care Services Focus; gatekeeping of higher level services
- Parallel revitalization of public health infrastructure, management, district health system etc.
- To be funded mainly from general taxation
- Slow start up, full implementation over 14 years, focusing first on rural areas
- Allow continued parallel voluntary medical scheme coverage



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NHI - Positives

- Increasing public healthcare funding
- Focus on underserved and rural areas
- Focus on revitalization, quality and access
- Pragmatic rollout



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NHI - Challenges

- Even in the most sophisticated health systems in the most developed countries in the world the benefit package is not fully comprehensive – where do you draw the line
- Talk in some countries about not treating smokers and the obese for certain conditions
- Limited use of diagnostic codes and inaccurate tariff schedules in the public health system makes costing difficult
- Utilization patterns – C-Section deliveries 75% in SA but the international average is 21%



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NHI - Challenges

- **Less than 15% of the SA population currently on medical schemes**
- **Disparity between financial resources in the public vs. private sector**
- **Distribution of health care resources between the public and private sector**



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NHI - Clarification

- Extent of involvement of private providers – doctors and hospitals
- How the shortage of about 80 000 health care workers in SA will be addressed
- Precise benefit package offered
- Assumptions used in costing
- Impact of additional taxes on the wider economy



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NHI – Medical Schemes

- Demand for high quality and value for money private care will remain and probably increase
- In peer countries a regulated private medical insurance environment tends to exist alongside state provided healthcare
- A strong medical scheme environment will compliment and strengthen NHI by reducing the burden on the publicly funded system



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NSSS

- **More than 5 million working South Africans are not saving anything for their retirement**
- **Many of those who are saving will have insufficient income at retirement**
- **A large proportion of the SA population are poorly equipped to cope with the risks of death and disability**
- **NSSS is aimed at addressing these issues**



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NSSS

- **NSSS has been widely debated and discussed since the publication of the first reform document in 2004**
- **And it seems as if very little progress to actual implementation has been made since then**
- **NHI is now a bigger priority for the government**
- **However, National Treasury is adamant that roll-out will start within the next 3 to 4 years**



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NSSS

- **Compulsory Contributions of between 15% and 18% of remuneration paid to a state controlled but privately administered fund**
- **Exemption will be allowed for employees belonging to accredited private sector funds**
- **Contributions will probably include Retirement, Risk, UIF and Compensation Commissioner**
- **Collected through the current tax system**



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NSSS

■ Current Reform Proposal based on a 4 tier system

- **Non-Contributory Social Assistance** towards poverty alleviation
- **Mandatory Contributory State Tier** up to an income of **R75 000** per annum
- **Mandatory Contributory Private Tier** up to an income of **R600 000** per annum
- **Voluntary Contributory Private Tier** on all income above **R600 000** per annum



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Tax Treatment of Group Risk Contributions

- Changes to the Income Tax Act effective 1 January 2011
- Tax Treatment of Contributions to Disability Income Schemes – PHI, ICB, ICI
- Employee must pay fringe benefit tax on contributions
- Currently under review by National Treasury



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Tax Treatment of Group Risk Contributions

- Also stricter and more aggressive measures and control regarding structuring of employer contributions on payroll
- Potential liability for employer if not done correctly
- The distinction between approved and unapproved cover very important
- Industry trend is a move towards unapproved umbrella scheme arrangements



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Tax Treatment of Retirement Fund Contributions

- Announced by the Minister of Finance in his 2011 Budget Speech
- New legislation is effective 1 March 2012
- No more tax deduction on Employer Contributions
- Increased tax deduction on Employee Contributions – 22.5%
- Cap of R200 000 on deductible retirement contributions
- Preservation at Retirement/Resignation/Retrenchment
- Probable demise of Provident Funds



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Thank you