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Benefits Update: South Africa

June 2022

Legislative update

A couple of significant regulatory proposals are in the pipeline that will change the retirement landscape, impact member behaviour, and shape and guide the behaviour of boards of funds and employers in the future.

Early access and compulsory preservation (the “two-pot system”)

With many South Africans facing financial pressure due to the COVID-19 pandemic and general economic slowdown, the government through National Treasury is engaging with the regulators to work out a set of relief measures for consumers.

A key measure being proposed is the introduction of a two-pot retirement fund system to provide for pre-retirement withdrawals while still aiming to safeguard retirement savings

- A *retirement pot*, consisting of two thirds of a member’s accumulated savings will only be available at retirement and must be used to buy a monthly pension.
- An *access pot*, consisting of the remaining third of a member’s accumulated savings will be accessible once a year for short-term financial relief.

Initial modelling suggests that the proposed two-pot system, even in the event that it allows for members to regularly access their “access pot”, will result in improved retirement outcomes for most retirement fund members compared to the current system however it will also significantly complicate the administration of retirement funds.

Auto enrolment

Another proposal is automatic enrolment of employees into the retirement system, backed by strong tax incentives. Not all employers provide a retirement benefit for their employees. Unless these employees self-enrol in a retirement annuity fund, they are left with no provision for retirement. The government proposes to introduce automatic enrolment to all employees in formal employment, thereby improving retirement coverage and providing risk cover for all employees.

Conduct of Financial Institutions Bill (COFI Bill)

Once enacted, the COFI Act will apply to all financial product providers and financial services providers. The Bill outlines what customers and industry players can expect of financial institutions. It requires that financial institutions treat customers fairly by incorporating the TCF (Treating Customers Fairly) principles into the way they conduct business with their clients. The COFI Act will also give the regulator more legal powers to advance and implement transformation. The overall intention of the COFI Act is to ensure a consolidated, consistent and comprehensive regulatory framework in the financial services industry and to ensure financial customers have the relevant protection.





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Market trends

Post the Covid-19 pandemic, key issues facing employers in managing health and benefits costs and risk include the following:

- The need for a more holistic employee value proposition (EVP) encompassing integrated health and financial wellness
- A review of risk benefit structures and provisions in light of an increase in death and disability claims and the cost of benefits
- Member communication and support with employee benefits via digital engagement platforms
- Increased demand for employer-sponsored healthcare (in South Africa employer-sponsored healthcare is not mandatory and employees are largely required to cover their own healthcare expenses)
- Increased use of digital healthcare services like telemedicine and virtual consultations
- Increased demand for workplace wellness benefits and Employee Assistance Programmes (EAP) in the face of mental and financial stress

Healthcare cost inflation

The forecast medical inflation rate for 2022 for the MEA region is 10.1% (the global medical trend rate is 9.5%). In South Africa healthcare costs tend to sit 3% to 4% above consumer price inflation (CPI) every year. Current CPI for May 2022 is 6.5%, up from 5.9% in March and April 2022.

There was a marked decline in claims levels during the Covid-19 pandemic, specifically elective and less urgent medical procedures. This allowed medical schemes to lower or defer contribution increases for the period however in 2022 claims activity levels have largely normalise with contributions increases expected to return to pre-pandemic levels by year-end.

While the bulk of South Africans rely solely on the public healthcare system, a large proportion of the employed population, around 15 million citizens look to the private healthcare system for quality care (around 8 million are privately insured and a further 7 million citizens pay for private healthcare from their own pockets and remain outside the traditional medical scheme market).





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