R14,9 billion without any increase in expenditure as a percentage of GDP. This increases to R17,1 billion in 2002/03 and R24,5 billion in 2003/04 if expenditure is allowed to increase to 29 per cent of GDP (figure 22).

14.12 Reform proposals and their financial implications

This section provides an estimate of the financial implications of major policy recommendations of the Committee. The evaluation is provided for the period 2001-2015. The assessment is provided both in 2001 prices and expressed as a percentage of GDP. A summary of the policy areas evaluated

14.12.1 Assumptions

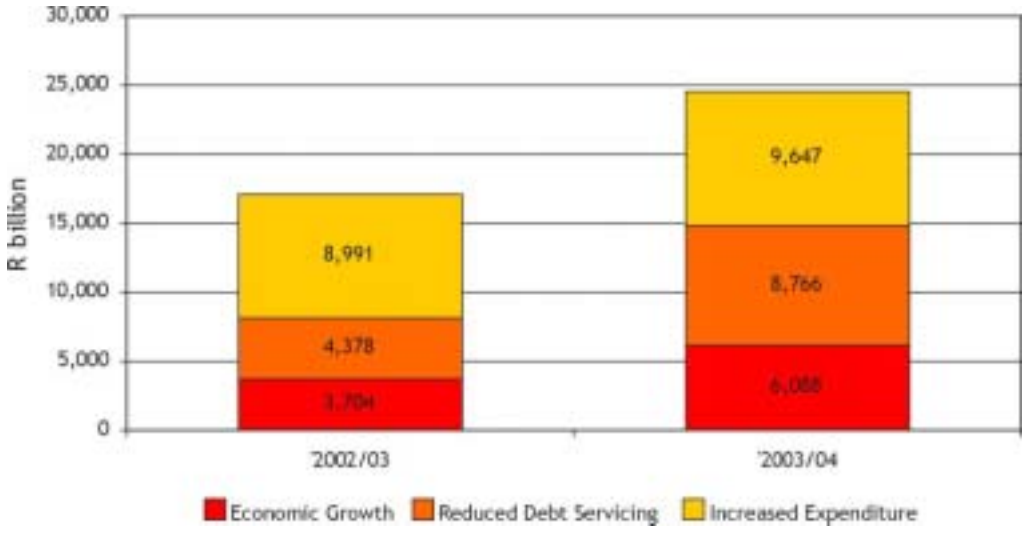
The following assumptions underpin the financial evaluation presented below:

- The policy evaluation occurs over a period 2001 to 2015
- GDP growth is assumed to be 2 per cent per annum from 2001 to 2005 and thereafter until 2015 to be 3 per cent
- GDP in 2001 is taken as R897,9 billion
- Government expenditure in 2001 is taken as R245,6 billion
- Costs are assumed to be in constant 2001 prices.

Due to the complexity and inter-relatedness of the policies under review a central scenario has been chosen for illustrative purposes, based both on recommendations of the Committee as well as scenarios assessed.

- ***Education*:** Here it is assumed that Government expenditure on education will remain a constant percentage of GDP consistent with the current ratio.
- ***Health*:** The policy framework provided for in the section above on Generic Financial Framework for Social Security is modelled here, reflecting the introduction of low-cost medical schemes, the conversion of the current tax rebate to an explicit subsidy for medical scheme members, the gradual mandating of cover, and the ultimate shift away from general tax funding to a universal contributory system.
- ***Housing*:** Here it is assumed that Government expenditure will remain a constant percentage of GDP consistent with the current ratio.
- ***Retirement*:** The policy framework outlined in the section above on Reform Proposals and their Financial Implications is modelled here, reflecting the shift of funding from unregulated to regulated and mandatory cover. The removal by 2005 of the means test on the state old age pension is also assumed (funded from the removal of the inequitable tax rebate for people over 65).

Figure 22
Fiscal capacity over and above the existing MTEF with no negative macro-economic implications.



- ***Disability*:** Here it is assumed that all current areas covering disability will remain a constant proportion of GDP.
- ***Children*:** The extension of the CSG in accordance with the medium- to long-term income support scenarios examined earlier is assumed here. It is assumed that a gradual extension of the CSG will occur including older age categories. Coverage for children up to 18 years is assumed to be implemented by 2005 (with a delayed take-up).
- ***Adult poverty*:** Scenarios consistent with the medium- to long-term income support scenarios are provided with a "solidarity grant" introduced in 2006 (with a delayed take-up).
- ***Unemployment*:** Here it is assumed that Government expenditure on unemployment will remain a constant percentage of GDP consistent with the current ratio.
- ***Survivors*:** Here it is assumed that Government expenditure will remain a constant percentage of GDP consistent with the current ratio.

14.12.2 Results

The reforms show that overall expenditure on social security (both public and private) increases in real terms from R270,6 billion (30.1 percent of GDP) in 2001 to R427,8 billion (32,4 per cent of GDP) in 2015, largely in accordance with growth in the economy (figures 23 and 24, and table 13). Overall there is an additional 2,3 per cent of GDP spent on social security, primarily as a result of expected increases in the cost of private voluntary cover for social security benefits.

The most significant change over the period involves the increase in mandatory forms of contributory social security cover and universal benefits offered directly by the government. The former primarily involve healthcare and

Table 14
Social security expenditure in 2015 if all the maximum scenarios evaluated by the Committee are implemented

		Total	Contributory				Non-contributory			
	R' billion	427,8	266,7				161,0			
	% of GDP	32,4%	20,2%				12,2%			
Contingency			Voluntary		Mandatory		Means tested		Universal	
	R' billion	427,8	175,0		91,8		6,2		154,8	
	% of GDP	32,4%	13,3%		7,0%		0,5%		11,7%	
			Not regulated	Regulated	Social Insurance	National Insurance	Social transfers	In-kind benefits	Social transfers	In-kind benefits
Total	*R' billion*	427,8	145,0	30,0	31,1	60,6	6,2	0,0	69,7	85,1
	% of GDP	32,4%	11,0%	2,3%	2,4%	4,6%	0,5%	0,0%	5,3%	6,5%
Education	*R' billion*	77,5								77,5
	% of GDP	5,9%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	5,9%
Health	*R' billion*	88,6	0,0	30,0	0,3	58,2				
	% of GDP	6,7%	0,0%	2,3%	0,0%	4,4%	0,0%	0,0%	0,0%	0,0%
Housing	*R' billion*	7,6								7,6
	% of GDP	0,6%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,6%
Retirement	*R' billion*	96,1	47,4		26,4				22,3	
	% of GDP	7,3%	3,6%	0,0%	2,0%	0,0%	1,4%	0,0%	1,7%	0,0%
Disability	*R' billion*	20,7	12,8		0,5	1,2	6,2			
	% of GDP	1,6%	1,0%	0,0%	0,0%	0,1%	0,5%	0,0%	0,0%	0,0%
Children	*R' billion*	26,2							26,2	
	% of GDP	2,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	2,0%	0,0%
Adult poverty	*R' billion*	21,2							21,2	
	% of GDP	1,6%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	1,6%	0,0%
Unemployed	*R' billion*	47,6	43,8		3,8					
	% of GDP	3,6%	3,3%	0,0%	0,3%	0,0%	0,0%	0,0%	0,0%	0,0%
Survivors	*R' billion*	42,3	41,0		0,1	1,2				
	% of GDP	3,2%	3,1%	0,0%	0,0%	0,1%	0,0%	0,0%	0,0%	0,0%