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The Trendline

Second quarter 2024



Ready, set... GNU

Investment overview
Market commentary

Over the quarter the world continued to grapple with lofty global US tech valuations, stubborn inflation, incessant conflict in the Middle East, and a somewhat deteriorating global geo-political outlook. At home, we took to the polls to cast our ballot for a better South Africa. Resulting from this election was a bloated but hopefully improved functioning cabinet that emerged from the ANC's failed attempt to remain in the exclusive driving seat of South Africa's government, albeit now with nine passenger parties.

Over the quarter:

- Local equities ended the quarter up +8.2%, well ahead of Developed Market Equity and Emerging Market Equity indices. The month of June alone reported a +4.2% gain as investor sentiment turned positive on the back of the South African election results.
- While the Resources and Industrials sectors drove much of the positive equity market return in the first two months of the quarter, the Financials sector rallied +14.5% in June to end the quarter up +17.1%. Subdued global commodity prices along with a stronger rand, weighed down rand hedged and commodity-focused stocks. The Industrials sector closed the quarter up +5.2% with the Resources sector up +3.5%. Much of the Listed Property sector's gain was earned in June (+5.9%), as the sector closed the quarter up +5.5%.
- Local investment markets appear optimistic about changes to come from South Africa's Government of National Unity (GNU), however, the size of the cabinet - 32 ministers with 43 deputy ministers - and its ability to work together remains a headwind.

- Improved sentiment spurred a rally in bond purchases from both local and foreign investors, propelling the local bond market to outperform local equities over the month of June and end the quarter (+7.5%) ahead of local cash (+2%). The South African Reserve Bank (SARB) kept interest rates unchanged at +8.25% over the quarter despite headline inflation (CPI) coming in slighter cooler at +5.2%.
- The US Fed met twice over the quarter and in both cases left the interest rate unchanged at 5.25%. The Bank of England also maintained its rate at +5.25% during its June meeting while the European Central Bank cut interest rates by 25 basis points to +4.25%, as widely expected, with inflation cooling to +2.5%.
- The Emerging Market Equity index (+5.0% USD) outperformed the Developed Market Equity index (+2.6% USD) over the quarter, following the conclusion of India's election and overall positive turn in emerging market sentiment. The Developed Market Equity index remains increasingly concentrated towards the US and a select subset of stocks that account for more than half of the index's return. The rand strengthened +3.8% against the greenback over the quarter detracting from rand-denominated offshore market returns.
- Overall, global investor sentiment was mixed over the quarter. While the short-term outlook is still unclear, the longer-term picture remains positive.

Amid these global challenges, GTC remains cautiously optimistic about the future outlook of investment markets. We reiterate our stance that patience, especially through periods of difficult investment performances, afford markets the time needed to filter out what is relevant from the noise. It allows market drivers the required time to achieve a new state of normalcy and portfolios the time needed to compound growth on growth.

Though the investment road may be bumpy, GTC has designed its solutions to hedge out much of the inherent investment risk while still positioning the portfolio for the highest probability of delivering on its investment objectives. It is crucial to stay invested in line with investment objectives when trying to achieve one's financial goals, and not be swayed by short-term sentiment.

Investment market returns as at June 2024

Investment market returns (%)	3M	YTD	1YR	3YR	5YR	7YR	10YR
Local Equity Market	8.21	5.72	10.04	10.12	8.73	7.53	6.52
Local Property Market	5.50	9.55	26.25	11.65	0.90	-0.74	3.24
Local Cash	2.02	4.12	8.50	6.46	6.05	6.41	6.56
Local Bond Market	7.49	5.55	13.73	7.62	7.82	8.68	8.20
Offshore Developed Market USD	2.63	11.75	20.19	6.86	11.77	10.88	9.16
Offshore Emerging Market USD	5.00	7.49	12.55	-5.06	3.10	3.54	2.79
Offshore World Bond Market USD	-1.58	-3.96	-0.63	-6.92	-3.20	-1.28	-1.20
Gold (USD)	4.93	12.66	20.62	9.09	9.40	8.41	4.96
Brent Crude (USD)	1.26	17.10	26.83	22.30	15.28	16.80	-1.66
USD / ZAR exchange rate	-3.76	-0.53	-3.38	8.56	5.30	4.85	5.58

All returns greater than 1 year are annualised. All returns are gross of fees.

CEO Editorial



Time certainly passes by fast when managing other people's assets. It would seem (though we're nothing by interested and affected bystanders) though that in the realms of politics, time passes by even quicker.

The past quarter and the beginning of this next quarter have proven difficult to report on. Not so much the performance and trending of the markets, but the to-and-fro dynamics of the macro political environment - which of course is a major influencer on the direction and trending of that which is most important - the markets. Verifying a sustained South African political trend has proven difficult.

It doesn't seem that you need time and gradual momentum to build an opposition party - ask uMkhonto weSizwe. It's also become evident that years of building one can be undone in a mter of months (or was it weeks?) - (probably don't) ask the EFF. Being a minor party with diametrically opposing principles to the majority party doesn't mean you can't be in government, especially at a provincial level. Who would ever have thought we'd see the ANC and the Freedom Front mutually taking on the DA, as happened in the Western Cape. Of course, like every other money manager, our job at GTC isn't to expend much energy on these uniquely South African events, but rather to understand them, interpret their repercussions, and foresee investment trends emanating therefrom.

This quarter's Trendline focuses on a few financially important government dictates, which will affect macro tends and each of us directly. The elephants wandering around this room are the NHI and Two-pot. Both have been in the press for ages now - and we have two articles, one from Zee Gumede in our Healthcare Consulting team and the other from Roger Schärges one of our senior wealth managers. Roger reflects in his article that the NHI, at least in concept has been around almost his entire professional career.

NHI, for many people is a conundrum. Few will argue against those that can't afford it, having access to improved healthcare. Equally these same concerned citizens (and GTC's client base is made up of them) wants their money to pay for their healthcare...

Two-pot is the principle of accessing one's retirement fund savings - in part - each year whilst one is working. Initially a union-driven demand which has been on the ANC's negotiating table for a long time, up to now we've watched (and GTC has been actively involved in the administration of) employees using resignation as the only other mechanism to get their hands on retirement savings prematurely. Not attempting to disperse any more technical know-how on these subjects, which has been done ad nauseam, GTC passes opinion on these important subjects.

Another socio-investment trend which is having a direct result on many investor's balance sheets (and income statements) is the shifted value of their home caused primarily by the uniquely South African phenonium - Semigration. The significant disparity between the prices of high-end houses in Gauteng and KZN (and elsewhere) as compared with the Western Cape and how quickly this has happened, warranted some research and GTC opinon. David Seligman's article is revealing and thought provoking. Well worth the read.

We did it again

For many consecutive years now, GTC has been awarded the PMR Diamond Award. For the seventh consecutive year, we have been voted the top-rated retirement fund management company in our category. Never complacent and never assuming, GTC is honoured, grateful, and proud to receive this award. Earned only because of the collective effort of all of our staff, I share these same adjectives about all of them. Well done team!



Semigration: Would you bet the house on it?



Perhaps a uniquely South African word, semigration has been both a noun and a verb in South Africa for the past ten years or more. The already established trend whereby retirees move from the economic hub in the centre of the country to coastal locations, favouring lifestyle over economic activity, has gained momentum and intensity with more economically active South Africans (actively supported by the work-from-home permissions of the Covid-19 years) choosing to move from one urban area to another.

Nowhere is this more clear that the move of economically active South Africans from various locations to the Western Cape. This migratory trend is also in sharp contrast to the historical trend of rural populations moving into South Africa's economic hub. The economic impact of semigration is compounded by the fact that it seems to be led by those who have the most financial influence and consequence.

While difficult to quantify empirically with little census data readily available, the relocation of higher net worth individuals (HNWI's) and families from Gauteng to the Western Cape is a definite trend.

Cape Town based international consultancy, Henley and Partners have estimated the number of US Dollar millionaires per city and the percentage change over the past 10 years to 2023 in seven South African urban areas, according to their African Wealth Report 2024.

Urban area or region	Number of USD millionaires (2023)	Ten-year change to 2023
Johannesburg	12 300	-44%
Cape Town	7 400	+20%
Cape Winelands (region)	3 600	+28%
Durban, Umhlanga & Ballito	3 500	-10%
The Garden Route (region)	3 200	+32%
Pretoria	2 100	-30%
Whale Coast	1 200	+35%

According to their research?, Gauteng has lost around 10,500 USD millionaires in the last 10 years (clearly not all to semigration), while the Western Cape now has more USD millionaires than Gauteng. It is also true that the Western Cape is an increasingly popular retirement destination for migrating millionaires from Europe and the rest of Africa.

As to why people move from Gauteng to the Western Cape - the two most cited reasons are concerns around Gauteng infrastructure as compared with that of the Cape (particularly water, electricity and roads) and the perception that the Cape offers a better lifestyle and quality of life than Gauteng.

Another reason for moving to the Cape frequently cited is the anticipated economic growth of the region, particularly when compared with Gauteng's own expectations. As the Cape likely grows wealthier, there are anticipations of increased business opportunities and trade flows in the region. As an example, based on ACSA's passenger statistics of March 2024, a record 2.75 million international passengers passed through Cape Town International Airport last year, surpassing the previous high of 2.4 million set pre-Covid, in 2018. While OR Tambo in Johannesburg still had 7 million international arrivals for the equivalent period, this represents 2 million less passengers than the 9.2 million from 2018.

For people considering semigration, there are (or should be) a few concerns:

- How will the Western Cape cope with the rapid influx of migrants and what strain will be placed on municipal services? For example, traffic in certain parts of Cape Town is already gridlocked for many hours of the day.
- Many semigrants are in their later working years or approaching retirement and this may place strain on existing health infrastructure.
- The most important concern for many potential semigrants is the disparity between house prices in Gauteng and the Cape.

Based on information from the Stats SA report on 'Residential Property Price Index 03/2023 from 2010 to 2022', Cape Town house prices increased by 141% (7% annualised) compared to just 71% (4.2% annualised) for Johannesburg and an average of 98% across all metros. As a result of the moribund growth in property prices in Johannesburg, many aspiring semigrants have found that they cannot replace their homes on a like-for-like basis. Some Cape house prices in the more desirable suburbs and towns have increased substantially more than the average 141% since 2010.

A significant contributing factor to Cape Town's property price increases in certain areas is surely that, Cape Town now has more than 20 500 Airbnb listings, with many hosts having multiple listings, with five hosts having over 100 listings each! This is according to Airbnb's own data as sourced from SA data site The Outlier.

Semigrants who want to maintain their standard of accommodation often must supplement the proceeds of their exiting house sale with capital from other assets, such as investments. This is often problematic for several reasons. The homeowners, who are dependent on a finite capital amount for their entire lifestyle provisions, concentrate an increased percentage of their capital into a single investment, whilst reducing other investment requirements (which could include medical and recreational allocations) into housing.



Capital value increases in houses in the Cape, while admittedly better than in Gauteng, have averaged around 7% per annum, which is certainly 'not shooting the lights out' when compared to equity returns. Unless a portion of the home is rented out, there will be no income realised on this investment.

Another option for semigrants that could be considered is renting a property instead of buying. To make this decision some understanding of gross and net rental yields is required. A gross rental yield is simply the gross income received per annum divided by the cost of the investment. For Cape Town, current gross rental yields average 7.9% per annum. Ironically in Johannesburg, due to lower capital values, rental yields average 11.6%, according to the Global Property Guide's report on 'Gross rental yields in South Africa: Cape Town and five other cities 03/2024'.

Net rental yield, a more comprehensive and complex formula is more accurate, as this looks at the percentage return after owner's other costs, such as levies, rates and taxes, agents' fees and maintenance. This can reduce gross yield by two or more percent, so that the net return would be well below 5%. A net rental yield of this quantum may well imply that there could be significant opportunity costs in buying a property, with this same capital perhaps better invested elsewhere and diversified across other asset classes and geographical regions.



Data sourced from Lightstone, an internationally recognised real estate data business, suggests that 80% of South African semigrants purchase a property of greater value than that which they've just sold, with 58% of those buying a smaller property than they sold. Suffice to say that doing one's homework when considering semigration (or indeed any property move) is imperative.

Chat to one of GTC's experienced advisors, carefully examining the opportunity costs and risks involved in buying versus renting.

Retirement funds, how relevant are they?

How does a South African retirement fund work, and more importantly, will it work for me?



The introduction of Two-pot prompts some reflection and perhaps introspection as to how relevant an approved retirement fund is in an investors' financial planning armoury.

The sacrosanct nature of approved retirement funds

Approved retirement funds in South Africa include pension, provident, and retirement annuity funds. 'Approved' because there are tax deductions permitted, (mostly) favourable tax consequences on the investments made, and some complex tax consequences on the proceeds. All of this is within the auspicious of SARS, and in terms of promulgated regulations. Retirement funds have the financial oversight and regulation of FSCA and other government bodies.

Up to 27,5 % of a member's taxable income can be invested into a retirement fund without incurring tax, with a ceiling of R350 000 per year. This favourable tax treatment is designed to encourage saving and facilitate employees' accumulating funds to cover their retirement. There is little social financial support offered to retirees who don't provide for their own needs, with government grants limited to a little over R2 000 per month with several other financial constraints. Socially orientated countries - some of which are very rich when compared with South Africa (such as these Scandinavian countries - **Norway** and **Sweden**) have generous inclusive schemes. Healthcare, housing and transport also being catered for.



Importantly, these Scandinavian benefits aren't free (which is often a misconception), but too are based on accumulated compounding contributions over time by the investor. Administration is centralised, which has historically been administered in a professional, honest and end user-centric manner. Various initiatives from our own government seek to emulate at least the principle of some of these socialist countries including the much debated NHI.

Regulation 28 of our Pension Funds Act governs how funds can invest by prescribing certain assets. The intention of the regulation is to limit exposure to high-risk assets ensuring asset diversification. Investors are thereby supposedly shielded from extreme market volatility, resulting in more consistent and predictable growth.

The role of retirement funds in a long-term financial plan

Approved retirement funds certainly do provide a solid tax-efficient base for creating disciplined wealth accumulation over a member's working life. Contributions grow tax-free until retirement, and pensioners can withdraw a portion of their assets without incurring immediate tax liabilities, allowing for a smoother transition into retirement.

An approved retirement fund is not however an elixir - as many retirement fund members would naively choose to believe. Just as one can't provide an answer to the hypothetical question 'how long is a piece of string?', there are lots of other related considerations when asked 'is a retirement fund sufficient for my pension savings?'. Unavoidable market volatility, fees and costs, tax at retirement, regulatory constraints, and the costs of insured benefits, all need to be considered and managed.

Most important of all is ensuring that the amount invested is realistic in comparison with a member's salary and future expectations. Time and compound growth must both be allowed to unfold their mathematical powers (defined by Einstein as the eighth wonder of the world). Members need to heed that any premature withdrawal (on any investment) will reduce these compounding features (as will a Two-pot payout…).



Depending only on one's approved retirement fund for future income during retirement is not a realistic goal. How can (say) 12% of one's salary, invested for (say) 40 years provide 100% of the income needed for (say) a further 30 years? To achieve comprehensive financial retirement goals, additional discretionary routine savings mechanisms must be implemented. Tax-free savings accounts (TFSAs), stock market holdings (such as through unit trusts both locally and internationally), fixed property and other methods of wealth accumulation should be included in an investment plan.

Being financially literate and understanding how to invest

Saving for anything, though probably most importantly for retirement, requires that an investor be knowledgeable about what they're doing. Understanding the different types of investment options, cost structures, risks, regulatory parameters, and a fundamental perspective of compounding growth will allow an investor to make informed decisions.

Understanding that one's financial future is ultimately the responsibility of oneself is perhaps one of the most important realisations associated with retirement financial planning. There's plenty to read (for free) on the subject and professional advice should be sought, not only at actual retirement crunch-time but during the planning and implementation phase.

Potential (two) potholes along the way?



Two-pot represents a substantial compromise in the way retirement funds are meant to work. By providing early access to a portion of retirement assets for immediate needs the principles of time and compounding are diminished. Government, under pressure from union members insisting on having access to their retirement funds initiated the Two-pot System, a compromise between compulsorily providing for retirement while having access to these funds.

Two-pot introduces behavioural risks and regulatory ambiguity. Early access allows indiscriminate use of these monies (despite the original intention being defined as emergency funds) especially among investors with limited financial knowledge. This further emphasises the importance of financial education and literacy. The implementation of the Two-pot System will complicate fund management and compliance, as well as a fund's administration. Costs with regard to these system complexities, introduced by regulators, will escalate.

Retirement fund default regulations and trustee practices

Important legislative changes, such as the implementation of default regulations in 2019, have reinforced the environment for protecting and educating retirement fund members. These provisions of the Pension Fund Act require all retirement funds to include default investment portfolios, preservation options, and post-retirement annuity plans, as well as making it a regulatory requirement that members are 'counselled' before making any irrevocable retirement fund decisions.



These regulations also ensure that trustees act in the best interests of their members by simplifying options, lowering fees, and encouraging consistent saving habits.

Trustees are also required to disclose information publicly and ensure that the prescribed counselling mechanisms exist explaining to members the default options and other choices available to them.

So all said, should I use an approved retirement fund?

Even if everything else was ignored (and of course it can't be) getting the government to effectively subsidise one's savings by something like 20% - 40% (depending on one's income tax rate) means using one of several options of approved funds is a no-brainer.

Further behavioural benefits such as regular compulsory contributions and a tangible goal - way into the future - help many investors. Resisting the temptation to access monies ahead of their desired objective is still achieved with an approved fund, notwithstanding Two-pot. Regulation, tax, and investment consequences all provide a much needed obstacle to the temptation of early access. Yes, an approved retirement fund should be the cornerstone of most investors' long-term financial planning.

Will Two-pot ultimately prove to be an own goal?



Initial withdrawal focus: Potential disillusionment?

The introduction of the 'Two-pot' System has certainly generated much interest, but perhaps some of the most important discussion points have been missed?

The main focus of discussion and debate has been on the initial seeding capital withdrawal of up to R30 000 per member from 1 September 2024. The fact that for most people the actual payout will be less than R30 000 due to the tax deducted, administration fees, or the 10% cap may lead to some unhappiness, and there will surely be many disillusioned retirement fund members not meeting their short term financial objectives that they were hoping to accomplish through Two-pot?

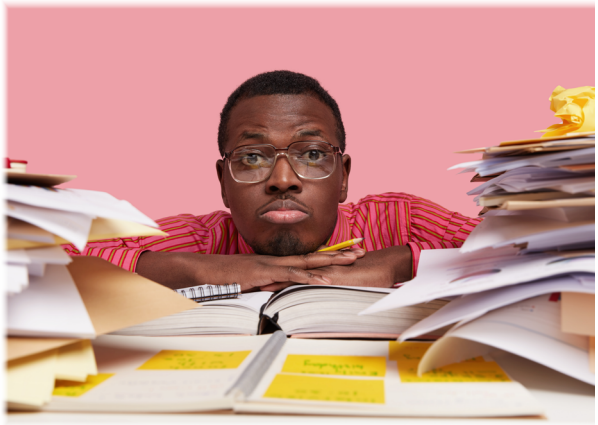
For many, Two-pot will provide some moderate relief from prevailing financial plight, and of course the proceeds of these premature withdrawals will make their way back into the economy, hopefully providing some support for a long-ailed economy

Legislative and administrative challenges and key issues

In addition to the Two-pot withdrawal, another issue being highlighted has been the regulatory provisions, as there are still a few pieces of legislation that need to be signed into law before the process is complete.

The preparedness of South Africa's retirement fund administrators has also been debated. Administrators do not only have to process the various withdrawal pots/ components of Two-pot, but they need to allow for savings pot withdrawals.

These additional complexities come at a cost, and administrators are going to have to recover this from the members, either via increased administration costs or via a specific administration charge to process a savings pot withdrawal. South African retirement funds, already complex with numerous moving parts, have just become even more complicated and difficult to administer.



The prevailing big issues are the locking-in of retirement savings to retirement, and the annual savings pot withdrawal option.



In terms of locking in retirement savings to retirement, this has always been the case with the rules pertaining to retirement annuities. As pension and provident funds are also vehicles for retirement savings, the inconsistency with retirement annuities is questioned. While it's reasonable to not change the rules on existing assets, and permit the vesting component for pre-September 2024 savings, aligning with retirement annuities would make sense, particularly in a country where only 6% of retirements are properly funded for, and where the government does not have the funds to meaningfully provide state pensions.

Financial emergencies: A questionable solution

As regards accessing retirement funds ahead of their due date, it is acknowledged that individuals may face unexpected financial emergencies and it may be excessively harsh that they cannot feed their families while they're looking at assets locked up in a retirement plan. The sustainability effectively allowing 1/3 of member's savings contributions to be withdrawn each year is however questionable.

Of course the best solution would be to only allow withdrawals for true emergencies, but the burden of this responsibility on retirement fund trustees to review all applications would make the existing death claim process (an already complex and difficult task) seem like a walk in the park.

Member responsibility and potential for abuse

Two-pot responsibility is therefore in the hands of each member, trusting them to not abuse the system. Sadly we know that many members will not act responsibly, cashing out their savings pot each year, and of course then only saving two-thirds of their contributions.

South Africa already has a retirement savings problem with the average fund contribution at just over 12% of pensionable salary. If a fund member now withdraws annually then they will only be saving 8% per annum (and admin fees and risk benefits haven't yet been considered). Fund members, already with an ignorance-based sense of security that they 'have a retirement fund' have little comprehension of what 8% of pensionable salary as opposed to 12% will compound to. Is this 'emergency' fund access not actually (irresponsible) political capitulation in exchange for votes?

Actuarial perspective: Long-term impact and simpler solutions

The actuarial profession and others have praised the new regulations on the basis that over the longer term the lock-in provision will have a greater positive effect than the negative impact of the annual savings pot withdrawals. Currently accessed only by resignation, industry pundit's argue that there will be a net increase in the level of retirement savings. Whilst perhaps true, there are other simpler, decisive measures which would ensure that retirement savings are preserved for retirement.



National Treasury's initial motivation and current perception

The initial motivation for Two-pot, by National Treasury to provide for emergency (and then Covid) situations has definitely been lost, with prevailing popular context seeing this as an 'annual bonus'. A largely unsophisticated membership is failing to appreciate the compromising long-term impact. These same financially unsophisticated members are likely to see this annual access as a type of stokvel. There are already government incentivised investments available for providing emergency funding, including tax-free savings plans.

The long-term view and missed opportunities

Tim Cohen, Business Maverick's editor, summarised Two-pot in his 'After The Bell' column recently, penned it as well as anyone could, reminding us all how long term investing works. Rule one is to start early. Rule two is don't stop. And rule three is don't touch the pot'. His article questioned whether South Africa should actually go through with this complex, complicated, expensive, and politically slanted piece of legislation. In the light of regulatory promulgation, this was of course a hypothetical and rhetorical question. Two-pot is with us, whatever our views might be. With this understanding GTC urges all retirement fund members to be pragmatic, being financially knowledgeable and fiscally prudent.

Pension replacement rates



Source: Daily Maverick

Essential changes and the need for better solutions

The locking-in of (some of) retirement savings to retirement is an essential change that had to be made. Appreciating the need to allow access to assets in emergency situations, the proposed one third of savings being allocated to an accessible savings pot is going too far. There needs to be a mechanism to ensure these are emergency withdrawals only, or long term retirement savings will suffer. There is a need to align retirement savings vehicles with the retirement savings requirements and to encourage the use of other financial vehicles for the shorter term needs and emergencies. We missed a trick here!

Note from the CEO editor: Dave Johnson is an independent trustee and, whilst GTC shares many of the opinions passed, this is Dave's article.

The National Health Insurance Act



On 15 May 2024, President Cyril Ramaphosa signed the NHI Bill into law. On 16 May 2024, the NHI Act was gazetted, though no effective dates were stipulated.

According to the South African Constitution in Section 27, everyone has the right to healthcare services including reproductive healthcare services, and no one may be refused emergency medical treatment.

The intention of the NHI is to achieve universal health coverage for all South Africans, specifically referencing financial health coverage. The sixth government administration since 1994 promulgated the NHI, stating that they believed that extending health coverage for all South Africans would improve access to care, quality of care and continuity of care. They also believed that NHI reforms will contribute to the health system having a co-ordinated and well-structured response to the burden of disease.

On 29 May 2024, South Africans went to the polls, resulting in the watershed moment when, for the first time in 30 years, there was no outright winner. The incoming seventh administration, housed now in the Government of National Unity, (GNU), has differing views to the sixth administration. It will be interesting to see how the majority party will find common ground, where their ideologies are concerned, as their biggest partner in the GNU cited litigation processes, against the proposed NHI Act, before the GNU was formed.

Although the NHI Bill is commended for creating access to universal health coverage for all South Africans, its implementation will undoubtedly face many funding and legal challenges which will likely delay implementation by several years.

Inequality in South Africa is a major negative contributor to equal access and quality healthcare. Based on the Gini coefficient, a widely used statistical measure of how income is distributed in the population of a country, South Africa has the highest income inequality in the world, with a co-efficient of 0.67.



There are 71 medical schemes in South Africa, with approximately 8.9 million members who will be affected by NHI. Medical aid schemes will not be able to offer any services that are being offered by NHI. There are currently 16.7 million employed South Africans who will need to take care of 60 million South Africans.

Some countries that currently operate national health schemes of one sort or another include Australia, Sweden, Brazil, Canada, Denmark, France, Germany, Norway, United Kingdom, Israel, Italy and Japan. According to **Joe Cronin**, Founder and President of **International Citizens Insurance**, the top-performing countries overall that are delivering, where healthcare is concerned, are Norway, the Netherlands and Australia. The United States ranks last overall, despite spending far more of its gross domestic product on healthcare.

Several of GTC's staff members were asked to table their views and questions regarding the NHI. It was interesting to note the different perspectives put forward by these same staff. Several of these comments have been included relatively unabridged. They are included to illustrate the wide divergence of expectations and support for this scheme. These opinions do not necessarily represent a GTC perspective.

"The private sector needs to come to the party as they have benefitted from the status quo. In the meantime, it is ordinary South Africans who bear the brunt of expensive medical aid cover and expensive healthcare products and services, whilst there is a lack of employment. The majority of South Africans have been left out of not only participating in the economy, but also being able to access quality care."

"Regulation is the only way that the cost of services and products can be managed, but the private healthcare industry, needs to want to be regulated."

"The private healthcare system is working, but the cost is too high, which is leaving the majority of South Africans scrambling for services in the public sector. Regulation in this service delivery has been left far too long."

"For Government to expect the private sector to agree to an incomplete plan is unfair, and the little that has been provided in the NHI plan, seems to sideline the private sector, though the bill is intended to correct imbalances, not create them."

"Government should not blame those who are concerned about why the centralising of medical schemes into a single NHI, when they themselves have been actively privatising other state-owned entities. The average South African has no reason to be confident that the funds will not be misappropriated. Tembisa hospital is a case in point."

"Will the NHI affect group risk contributions on approved retirement funds? Currently, medical aid is compulsory for defined employees on a group risk scheme, resulting in the group risk premium being more affordable. How will the NHI affect this underwriting criteria?"

The NHI Bill
From a (sort of) layman's perspective



I remember the first time I heard about the proposed National Health Insurance (NHI). It was 23 years ago and I had just joined the financial services industry.

At that time in 2001, the first proposals for NHI had been tabled, and Thabo Mbeki was president. HIV was being managed by doses of garlic and sweet potatoes, and South Africa was entering a property boom that would lead us into a period of prosperity unprecedented in the South African investment environment. Little did we know at this time what the next decade would bring us…

As regards the experts in the medical aid and financial services industries, who, advising on the proposed NHI, informed us (in the early 2000's) that there were still lots of discussions in the halls of legislature before a bill would ever be tabled. NHI pretty much became a forgotten thing, with the only the odd regulatory or legal muttering from time to time.

As has been substantially documented, the 2010's and the era of Zuma and the Guptas led to a period of mass corruption across almost all organs of state, with national healthcare structures not escaping this hollowing-out or 'white-anting' as it became know. It's probably not fair to blame only Zuma for the national healthcare system's near collapse, as there were signs, particularly in the Eastern Cape, that State Healthcare corruption had been endemic since the late 90's.



As HIV and TB placed a further burden on state health coffers, and tax revenues started to falter due to State Capture and maladministration, it became evident that something needed to be done to rectify the situation, and the plans for an NHI bill were dusted off.

Fast forward twenty odd years to the beginning of 2024, an election year, with the ANC already projected to lose the majority vote for the first time since 1994. With what can be viewed as more of an election tactic than a government policy decision, the NHI bill was signed by President Cyril Ramaphosa just before elections.

The common (business forum) opinion is that the bill is fundamentally flawed, with several sections being considered unconstitutional. It has been suggested by knowledgeable people in the private medical aid sector that there will be constitutional court challenges and 'panel beating' for several years to come - perhaps even decades - before there is a NHI bill capable of being implemented.

The populist thinking (or is it rhetoric?), is that the funds being paid into private medical cover by private individuals could be better distributed for the benefit of all, by being paid into the NHI, thereby providing additional funds to provide a better quality of service overall for everyone, rich and poor alike. The voices of 'those who have little' are louder and more strident than the calls from the 'those who have' minority, even though the funding for this initiative will need to come from the 'those who have' minority.



There is already a State healthcare system in place, though for various reasons already noted, this is not operating properly and is not addressing the needs of the intended constituency. Will a NHI achieve the desired turnaround?

From a theoretical perspective, universal healthcare in modern society should be a basic human right. A healthy country means healthier citizens and greater economic achievements and happy people and stable governments and reduced healthcare costs… doesn't it?

NHI (in one form or another) has been tried and used elsewhere, with varying degrees of success. The onus of where the money comes from might change from country to country, but the money ultimately has to come from somewhere. Socialist biased countries seemingly provide cheap or free services for their citizens. Almost always these same countries have a wide base of tax payers. The benefits provided aren't free, it's merely the (successful) use of collective monies that changes.

The service isn't free. South Africa falls short of many of the requirements required for a socialist benefit program including the scale of the tax base, and the institutional ability to manage these proceeds responsibly. Uruguay, for example, runs a successful national health scheme, though in reality this is more akin to South Africa's existing private care and State healthcare. The state portion of the **Uruguay scheme** cares for less than 40% of the population whilst privately funded healthcare caters for the remaining 60%.

Some countries have successfully developed a hybrid system - the UK and Australia both have basic universal healthcare for all, with the option to pay extra monthly for private healthcare over and above the national health systems. But a word of caution - the NHS in the UK is the largest employer in the country, implying that South Africa's NHI, once implemented, could very easily become an unwieldy behemoth, employing a bloated civil service, without any apparent means to fund this additional salary bill. Those with exposure to the UK's NHS will attest to it being cumbersome, difficult to be seen by a doctor or diagnosed, and even longer to wait for procedures.



Notwithstanding all of the above, it is a moral imperative to ensure that every South African citizen is able to access a certain standard of healthcare, in the same way that they should have access to a certain standard of education, water, housing and safety.

The success of what might seem an insurmountable goal is the effective execution and management of resources, and the establishment of realistically attained objectives. It's usually at this point that there's a big divide between those with private medical aid and those without. Private medical aid members might argue that there is already a double tax for them, as their tax payments to the fiscus are supposed to be effectively apportioned by government to the various organs of state, including healthcare. These same members will be required to be the backbone of a NHI, as it's currently conceived. Without them, both private healthcare and that afforded by the State will fail.

Just as a business, or indeed a family household, needs to constrain their expenses (and expectations) in accordance with their income, so too must a country. Whether it's the five additional nuclear power stations mooted or a national health insurance scheme, fiscal responsibility and realistic scenario planning needs to prevail. The geese laying the eggs (golden or otherwise) must be cared for and not just eaten.

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