

SANLAM
BENCHMARK 2024

ACCELERATING A BETTER WORKING SOUTH AFRICA

Insights Report

Sanlam

Live with confidence

Financial Planning | Retirement | Insurance | Health | Investments | Wealth | Credit

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Editor's note



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Manager: Communications and Marketing
Sanlam Corporate

Our 43rd edition of the Sanlam Benchmark research explores critical themes shaping the industry – from innovation and trust to sustainable development goals (SDGs), cyber security, and improving access to health and well-being solutions.



As we navigate the complex landscape of financial services, the research results provide insights that are both informative and actionable. These insights underline the value of integrated employee benefits and healthcare solutions as essential components in driving a thriving workforce and society.

While the research focuses on the working population, it also provides a glimpse into the general mood of the country. Concerns about employment prospects and job stability, as highlighted by university students, reflect the pervasive economic challenges that keep many of us awake at night.

Leveraging innovation to combat fraud and build trust in financial services

Digital transformation is not just a buzzword; it is a reality. Streamlining activities across customer touchpoints and embracing virtual agents are no longer optional – they are necessities. Today, these technologies represent exciting opportunities; tomorrow, they will be the standard expectation across the financial services sector. However, with innovation comes the challenge of security and maintaining trust.
As financial services become increasingly digitised, cyber security remains a critical concern. Institutions must adopt robust measures to protect sensitive data and maintain customer trust.

The future of healthcare: Technology to improve access to health and well-being

Technology is revolutionising healthcare. Addressing the unique challenges of the South African healthcare landscape and exploring innovative solutions for reducing healthcare costs will be key to building a healthier, more productive workforce. Digital health technologies have the potential to unlock greater value for employers and employees through integrated employee benefits and healthcare solutions. Financial institutions and healthcare providers can leverage these technologies to personalise and automate care delivery, improving member outcomes.

Member support and education for good outcomes

The traditional methods of accessing savings are evolving and innovative alternatives such as robo-advisers are offering members greater flexibility and control over finances. But members need to be empowered with the information they can understand to enable them to make the right choices for their future. But this alone will not solve or achieve positive outcomes. In an age where consumers are overwhelmed by information and options to choose from, well-designed default options can simplify decision making. Through providing members with knowledge and education, financial institutions can play a big role in supporting individuals to achieve their retirement goals.

Sustainable investments for sustainable growth

Financial institutions have a key role to play in driving sustainable development through responsible investment practices, contributing to economic growth and societal well-being. The integration of SDGs into business strategies is a necessary enabler to help corporates achieve this, as many recognise their role in promoting sustainability through responsible investing and corporate social responsibility initiatives. Aligning with SDGs drives value creation and societal impact, particularly in the realm of infrastructure investments as vehicles for sustainable growth.

But success depends on how we all work together, as corporates, employers, intermediaries and trustees to enable a better working South Africa. One where every worker, every family and every community are healthy and financially confident.

We are grateful to our partners and clients who contributed to the insights in this year's Sanlam Benchmark Research. We hope the indings will guide you in navigating the challenges and opportunities within this dynamic industry.



Prevention is better than cure



Kanyisa Mkhize
CEO
Sanlam Corporate

It is often said that 'prevention is better than cure'. This is a simple yet powerful reminder of why planning is so important. It teaches us that by investing a little time and effort early on, we can often avoid bigger problems later. Whether it is staying healthy, managing our finances better, or just being prepared for life's challenges, every small proactive step makes a big difference. Planning ahead can also help us avoid making rushed decisions, and this bit of foresight can go a long way in ensuring a more secure future.



Our theme this year: *Accelerating a better* ***working*** *South Africa* – calls on us to embrace proactive planning to enable us to create a prosperous future where every worker, every family and every community is healthy and financially confident.

Accelerating a better working South Africa

At Sanlam our purpose is to empower generations to be financially confident, secure and prosperous. We are committed to championing a better working South Africa through sustainable and inclusive economic growth. Our approach aligns with the Sustainable Development Goals (SDGs). We too want to do our part to help end poverty, reduce inequality, and ensure health, justice and prosperity for all.

With our country currently grappling with a range of challenges, including a poor economy, widespread poverty, and structural inequalities, there are significant barriers to achieving sustainable growth and SDGs. These challenges influence the sustainability of businesses to varying degrees, but they also present opportunities for us to contribute to the sustainable development of South Africa's economy.

We believe that SMMEs will be critical job creators in the future; however, we need a business environment that enables SMMEs to grow and thrive. And SDGs are just one of the roadmaps guiding us at Sanlam Corporate in enhancing South Africa's workforce and delivering financial confidence to organizations, SMMEs, and their employees.

Sanlam has prioritised 7 SDGs:

- 3 Good health and well-being
- 4 Quality Education
- 8 Decent Work and Economic Growth
- 10 Reduced inequalities
- 11 Sustainable cities and communities
- 13 Climate Action
- 17 Partnerships for the Goal

But we also recognise that we have an impact on all 17 SDGs.



Similarly, investing in infrastructure is critical for South Africa's sustainable and inclusive economic growth. Public-private partnerships and institutional investments play a crucial role in addressing infrastructure deficits.

However, a poor economy presents barriers to achieving this. When the economy stagnates, businesses and individuals experience financial strain, leading to increased unemployment, reduced income levels, and limited opportunities for economic advancement. This environment fosters a sense of insecurity and scepticism towards economic stability and the capacity for future growth. A struggling economy can also erode trust in financial institutions, often seen as the backbone of economic activity.

Building and maintaining trust in financial institutions

One of Sanlam's key pillars is to be the most trusted and secure insurer in the markets where we operate. As the saying goes, trust is earned where actions meet words. Sadly, the financial services sector has broken trust many times over, and the Sanlam Benchmark research reveals that South Africans feel both physically vulnerable and financially exploited. The unemployment rate remains upsettingly high at 32.9% (1Q24) up from 31.1% (1Q23). I am not surprised then that our people are feeling vulnerable. Many young people are concerned about job stability in an economy that is not growing. If South Africa is to respond to the SDG of "decent work and economic growth," we as businesses will need to play a significant role to stimulate economic growth and support sustainable development initiatives.

Over the years, we've seen many policies proposed, and some put in place to fuel the economy –including the introduction of prescribed assets where funds would invest in the economy for inclusive growth through transforming and diversifying the financial sector. However, fragmented policies and short-term solutions will never solve the deep seated structural inefficiencies, nor will it give rise to economic growth and prosperity.

Building bridges over troubled waters

Regulatory changes like the Two-pot system and the National Health Insurance (NHI) are designed with only the best of intentions. These policies aim to alleviate poverty and drive financial inclusion. However, just as a poorly built bridge can collapse, poorly implemented legislation can have dire consequences on those it is meant to help.

The Two-pot retirement system aims to provide individuals with immediate access to a portion of their retirement savings while preserving a portion for their long-term security. However, navigating the delicate balance between immediate financial relief and long-term retirement security will need financial advice and education as key enablers for making informed decisions and understanding the long-term impact of withdrawals.

Similarly, the NHI aims to provide universal healthcare, ensuring that all South Africans have access to quality medical services

regardless of their financial status. is commendable, the implementation of such a system is fraught with challenges. Issues such as funding, infrastructure, and efficient administration are critical to its success. But as I set out earlier – poor implementation can lead to unintended consequences.

Both the Two-pot system and the NHI highlight the importance of clear communication, careful planning and implementation to ensure that these policies achieve their goals without unintended negative outcomes. We asked consumers about these regulations, and more than half said that they would access their retirement savings, and most believed that they would have free access to medical aid once the NHI bill is enacted.

Financial education and advice will be key to enabling individuals to understand how these policies work and the long-term impacts of poor planning and decision-making on their health and savings. By focusing on thorough planning and execution, South Africa can become a more inclusive, knowledgeable, and financially secure society.

Innovating for posterity

Our clients and intermediaries recognise Sanlam Corporate as a business that acts with integrity and uses technology to enhance clients' experience. As we look to the future, cyber security will play a significant role in shaping the future and rebuilding and maintaining trust. To remain relevant and maintain a market-leading position, organisations must invest in future technologies, today. At Sanlam Corporate we are continuously developing our digital capabilities and technology to lead in digital innovation in the retirement and healthcare sectors. Powerful ecosystems that leverage digital technologies will stimulate economic growth by fostering innovation and creating a competitive environment for young people. Today's tech-savvy youth will be future leaders shaping the economy of tomorrow. Innovation serves as a key stimulus for growth, and by cultivating a tech-savvy, entrepreneurial mindset among the next generation, we can ensure a dynamic and resilient economic landscape for the future.

Health is wealth

Beyond direct medical expenses, the indirect costs of healthcare in South Africa are substantial. Findings from our Sanlam Benchmark 2024 Survey reveal that 39% of Sanlam Umbrella Fund participating employers have experienced an increase in absenteeism due to stress, anxiety, or other mental health issues.

Absenteeism, medical boarding due to ill health or injury, decreased employee morale, increased employee turnover, loss of household income, and reduced workforce productivity all contribute to the economic burden. These factors highlight the importance of an integrated approach to employee well-being, one that Sanlam through our union with AfroCentric is well-equipped to address through our combined expanded healthcare capabilities.

Returning to my point of departure, to create a better working South Africa, it's crucial to understand the root causes of our financial and health challenges. Sanlam Corporate is committed to this mission. By providing comprehensive healthcare and financial solutions, we can foster a healthier, more productive workforce and a prosperous future for all South Africans.



The trust crisis



Nzwa Shoniwa
Managing Executive: Sanlam Umbrella Solutions
Sanlam Corporate

Trust is defined as "*a firm belief in the reliability or truth or strength of a person or thing*". In recent years, the South African financial services industry has been plagued by a profound trust crisis.



This issue is multifaceted, affecting various stakeholders including government institutions, financial regulators, and the general public. Amid economic volatility, high-profile scandals, and governance failures, confidence in financial institutions has eroded significantly. Pensioners, in particular, have expressed deep-seated concerns about the security and management of their retirement funds, exacerbated by controversial policy reforms and inadequate transparency. As stakeholders call for more stringent oversight and better governance, the industry faces the urgent challenge of restoring faith among its clients, ensuring not only financial stability but also the ethical stewardship of their hard-earned savings.

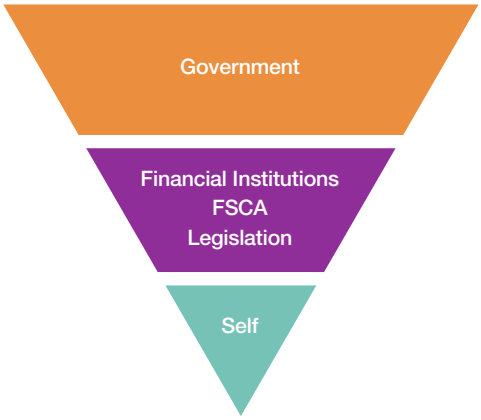
Declining trust in South Africa's future: An alarming trend

One of the most alarming indicators of the trust crisis is the declining confidence in the future of South Africa. One of the primary factors contributing to this decline is the persistent economic struggle. South Africa's economy is being hampered by sluggish growth, high unemployment rates, and widespread poverty. The impact of the COVID-19 pandemic has further exacerbated these issues, leading to business closures, job losses, and increased inequality. Political instability is another significant driver of waning confidence. Frequent changes in leadership, corruption scandals, and infighting within the ruling African National Congress (ANC) have eroded public trust in the government's ability to lead effectively.

For many South Africans, the economic outlook remains bleak, with little hope of substantial improvement soon. When looking at the data, it is evident that pensioners are more pessimistic about the country's future, with more than 60% of respondents stating that they do not believe the country's challenges will be

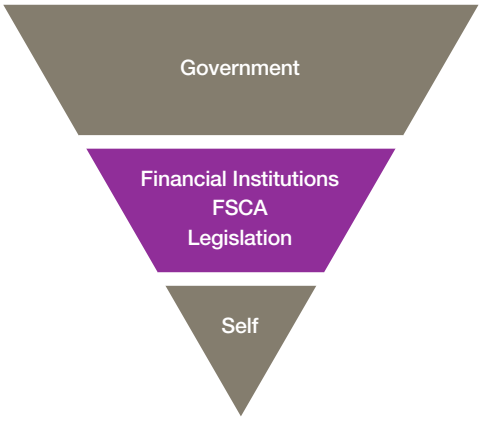
resolved within their lifetime. In addition, public sentiment towards political leadership is overwhelmingly negative, with calls for honesty, transparency, and effective governance.

Many respondents from the 2024 Benchmark Survey believe corruption is the root cause of South Africa's problems. They emphasise the need for new leadership, job creation, crime reduction, and the provision of essential services such as electricity and water.



This lack of trust in political leaders cascades down to financial institutions, authorities governing the private sector, the legislation that is promulgated, and even members' belief in their own ability to make informed decisions.

Financial concerns



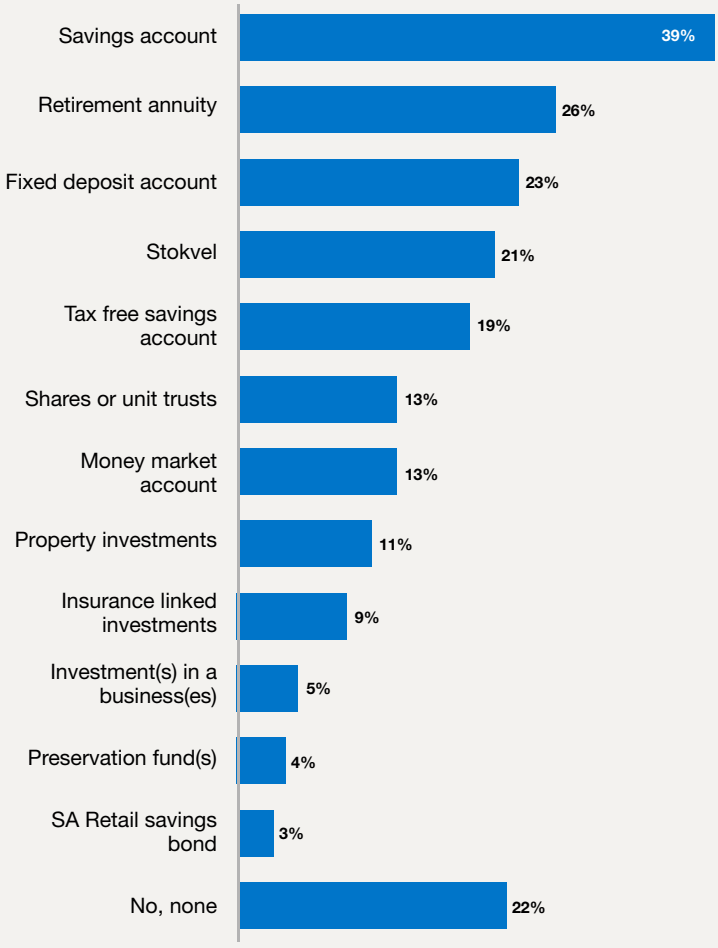
Financial insecurity is a major concern for both retirees and respondents from our consumer survey. The pensioner survey revealed that 54% of the respondents worry about not having enough money to live comfortably, while 52% fear running out of funds before they die. Additionally, 35% of retirees are concerned about deteriorating health.

Furthermore, 66% of the consumers surveyed indicated that they either felt vulnerable about their finances or **financially exploited**. Exploited implies deceit, underhandedness, coercion, or abuse. This is a strong choice of words. These concerns highlight the importance of reliable and trustworthy financial institutions to provide security and peace of mind for both the young as well as the aging population.

When considering what financial products respondents utilise (and therefore trust) outside of their employer's retirement arrangement, banking solutions such as savings accounts or fixed deposits came out tops, as did a strong alliance to non-traditional savings and investment institutions such as stokvels. In fact, according to the National Stokvel Association of South Africa (NASASA) over 11 million South Africans are members of a stokvel. That's around 40% of the adult population, which makes stokvels a primary source of savings in a country with a poor savings culture. NASASA further estimates South Africa's stokvel industry is worth R45bn and that it continues to grow.

Savings/Invesments apart from Company Retirement Fund

Apart from your company retirement fund(s), do you use any other savings or investment vehicles as a means of savings towards an income in retirement?



Base: All respondents (n=507)

Administration fees

Our independent research firm conducted interviews with standalone respondents as well as participating employers in umbrella funds. The research indicates that a substantial portion of employer funds (40%) and participants in umbrella funds (32%) have not reviewed their administration services in the past five years. This may indicate complacency in reviewing current providers, or perhaps, unlike consumers, trustees and joint forums actually do believe that their current providers are providing the best fees and services available. The increased average administration fees for standalone funds, which have risen from R55.29 to R66.65, relative to the fees for umbrella funds, which have remained consistent at R30.38, could be the driving force behind the shift towards umbrella funds, as noted by the highest level of consideration for conversion (56%) in the past decade. This also suggests support of trustworthy and efficient management structures within umbrella funds.

Default Investment Strategies

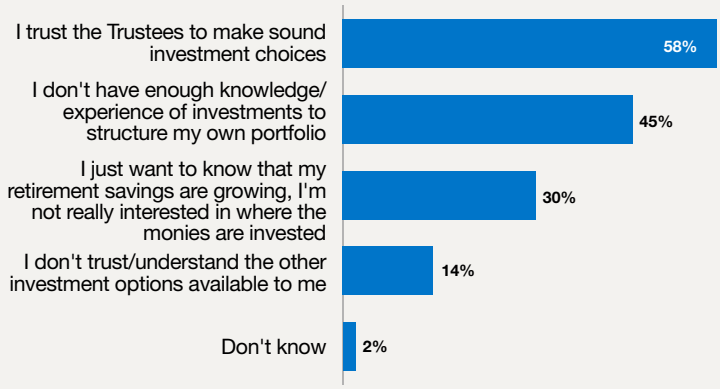
Looking at investments, a default investment portfolio with member choice remains the most common investment strategy adopted by standalone funds (54%) as well as umbrella subfunds (53%). Interestingly, among those who offer member choice, on average 87% of employer fund members and 82% of umbrella subfund members are reported to be invested in the trustees choice/ default portfolio.

Lifestage remains the dominant choice, with 3 out of 4 funds using a Lifestage strategy as a default option. Zooming into Lifestage, we find that approximately 79% of employer funds and 65% of umbrella fund participants who use a lifestage investment strategy said it is explicitly aligned with their trustee-endorsed annuity strategy.

The above shows the need for strong defaults and illustrates members' reliance (and trust) on decisions made by trustees as well as joint forums.

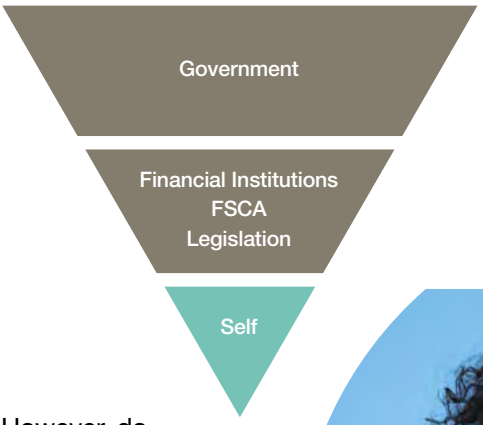
Reasons for preferring default option

Why do you, or would you prefer to invest in the default investment option?



Base: prefer to invest in the default investment portfolio (n=118)

Trust in self

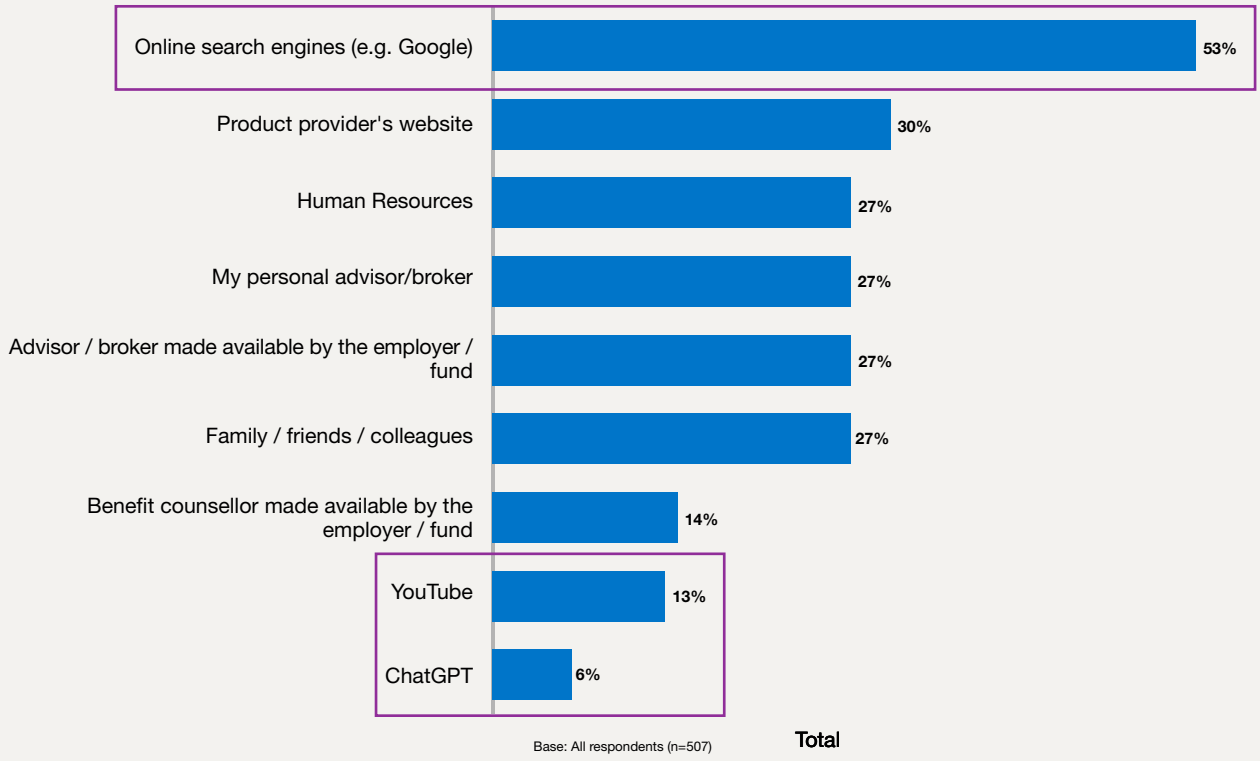




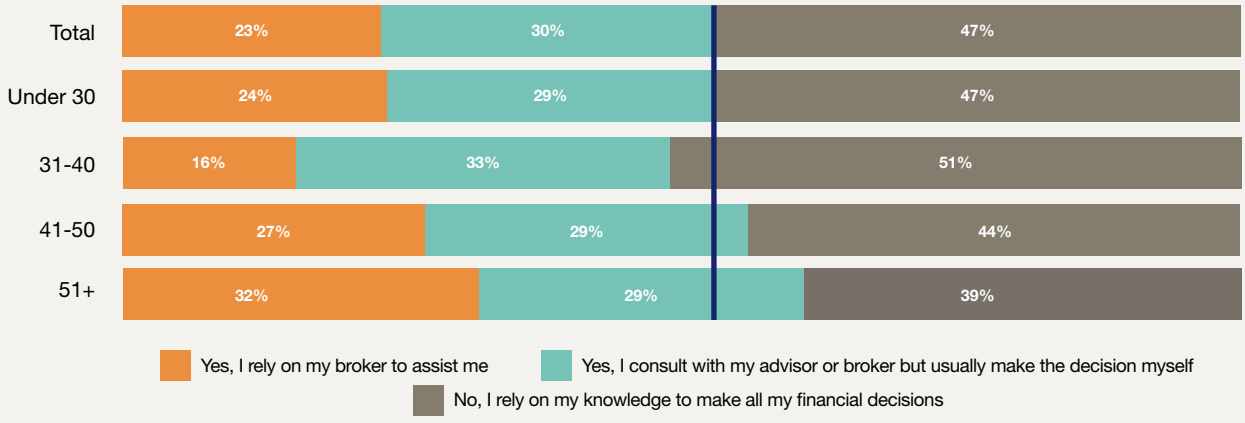
However, do members at least trust their own abilities in making financial decisions? Of consumers surveyed, 72% indicated that they. use online sources such as Google, YouTube, social media and Chat GPT to locate information on financial products. Some of these sources are notorious for being unreliable and full of "fake news" or scams, and yet far more trusted than the product provider's website (30%) or an adviser or broker made available to members of a fund (27%).

Sources of financial information

Where do you generally go to for any imformation on financial products that you may be interested in?



Do you currently make use of a personal financial advisor/broker to help you make decisions regarding your retirement savings and investments?



However, the use of financial advisers is more prevalent among pensioners, with 59% of retirees indicating that they had consulted a professional financial adviser for retirement advice and guidance. A further 54% confirmed that they still use a professional financial adviser even though they are retired.

High-quality financial advice is a key tool to increasing trust within the financial services industry, and we believe it is currently being under-utilised. Advisers can provide members with a needs analysis of their individual requirements, and the latest information on portfolio performance and the most innovative products available. As an industry, we will, however, need to focus on building trust in these advisers.

Effective communication about retirement readiness is also essential for empowering a younger generation with knowledge and building trust. Many employer funds (45%) and umbrella fund participants (53%) monitor

and send targeted communication to members with low replacement ratios. However, there is still a need for better education and support for members to understand the risks and make informed decisions about their retirement.

Financial stress

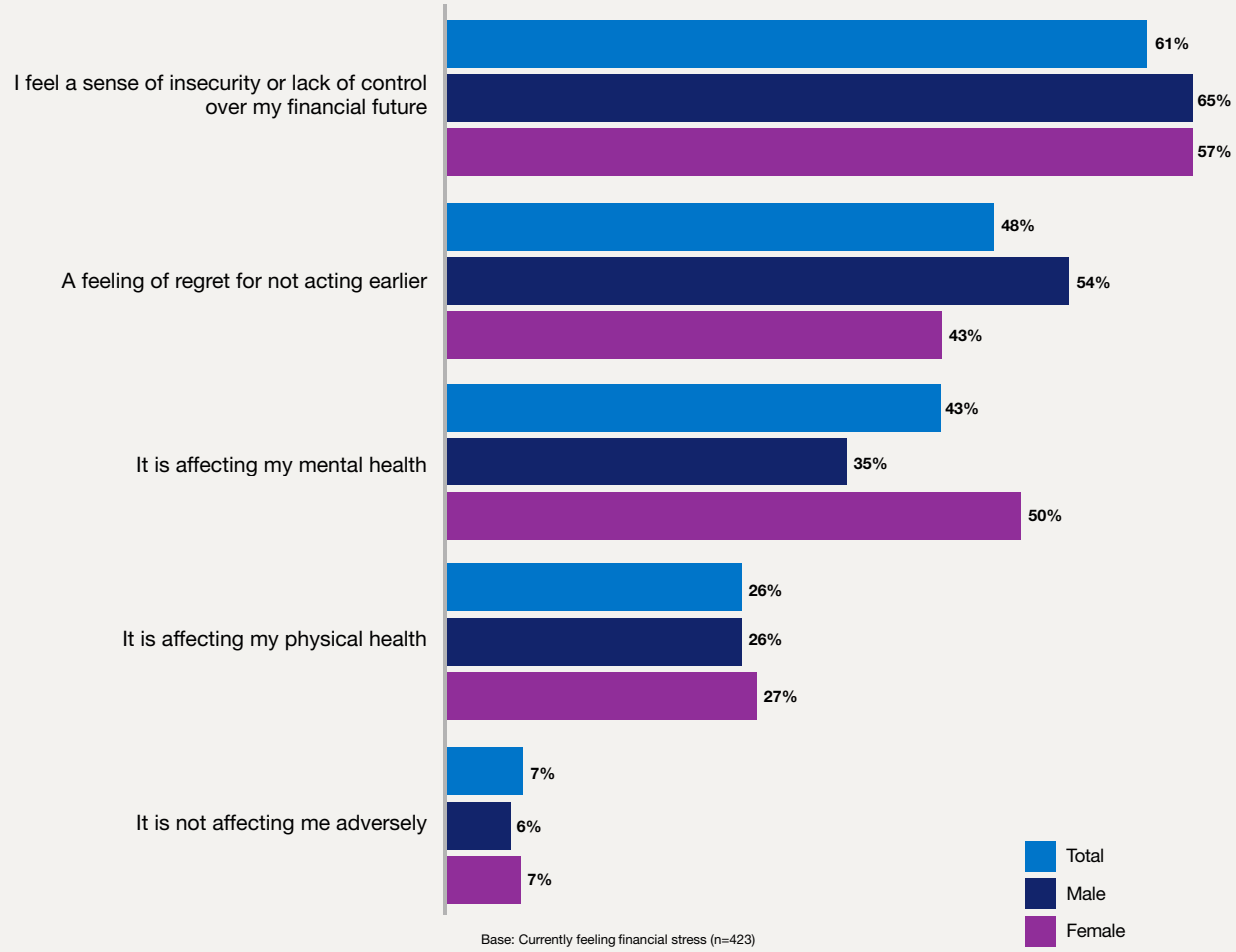
South Africa grapples with severe social issues, including crime, inadequate healthcare, and education systems, and lingering racial inequalities. The high crime rates, particularly violent crimes, create a pervasive sense of insecurity. Meanwhile, the education and healthcare sectors struggle with underfunding and inefficiencies, leaving many citizens without access to essential services. These social challenges hinder individual and collective progress, contributing to a sense of stagnation, hopelessness and high levels of financial stress.

In 2019, the Benchmark research we presented showed that 73% of respondents had experienced financial stress, with more than half admitting that it was having a negative impact on them at the workplace. Unsurprisingly, debt was identified at the key contributor to financial stress.

In 2024, respondents advised that they are mostly concerned about retirement savings, followed by access to healthcare benefits. This corresponded with the high level (49%) of respondents who confirmed that they were struggling with debt and did not have much left over at the end of the month to save or take up medical benefits. The burden of financial insecurity not only strains an individual's economic stability but also profoundly impacts his or her mental health, leading to a myriad of psychological challenges. The recent survey indicates that more than 80% of respondents confirmed that they were currently experiencing financial stress, which had an impact on their mental health.

Impacts of financial stress

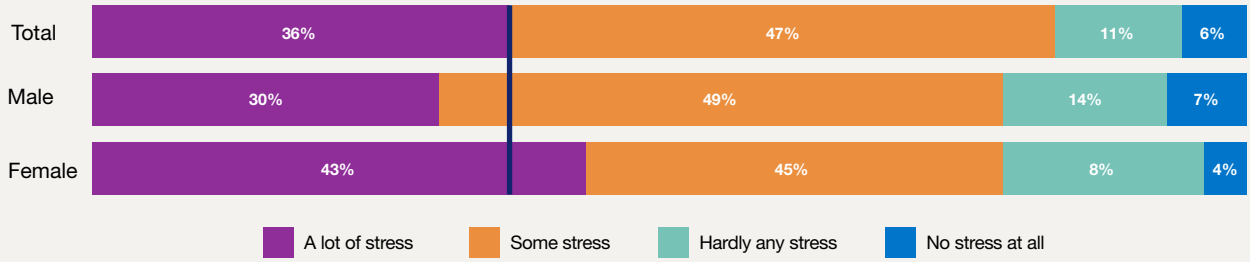
How is this stress affecting you?



Base: Currently feeling financial stress (n=423)

Current financial stress

How much financial stress are you feeling right now?



When people are unable to meet their financial obligations or have a constant worry about their economic future, it creates a persistent state of anxiety and stress. Around 4 in 10 funds and subfunds have reported an increase in absenteeism due to stress, anxiety and mental health issues among staff over the past two years. This financial pressure can lead to severe mental health issues, including:

1. **Anxiety and Depression:** Chronic financial stress is closely linked to increased anxiety and depression. The constant worry about bills, debt, and financial survival can lead to feelings of hopelessness and helplessness, significantly affecting one's mental well-being.
2. **Sleep Disorders:** Financial worries often lead to sleep disturbances or insomnia. The lack of adequate sleep can further exacerbate mental health issues, leading to a vicious cycle of stress and sleep deprivation.
3. **Substance Abuse:** Some individuals turn to alcohol or drugs as a coping mechanism for financial stress, leading to substance abuse disorders. These not only impacts their mental health but also their overall physical health and social relationships.
4. **Relationship Strain:** Financial stress can put a significant strain on relationships, leading to conflicts, communication breakdowns and, in severe cases, separation or divorce. The emotional turmoil from strained relationships further impacts mental health.

Understandably, we are seeing a high level of both standalone (49%) and umbrella funds (53%) indicating that they believe a holistic integrated health and financial wellness programme delivers high productivity and staff happiness.



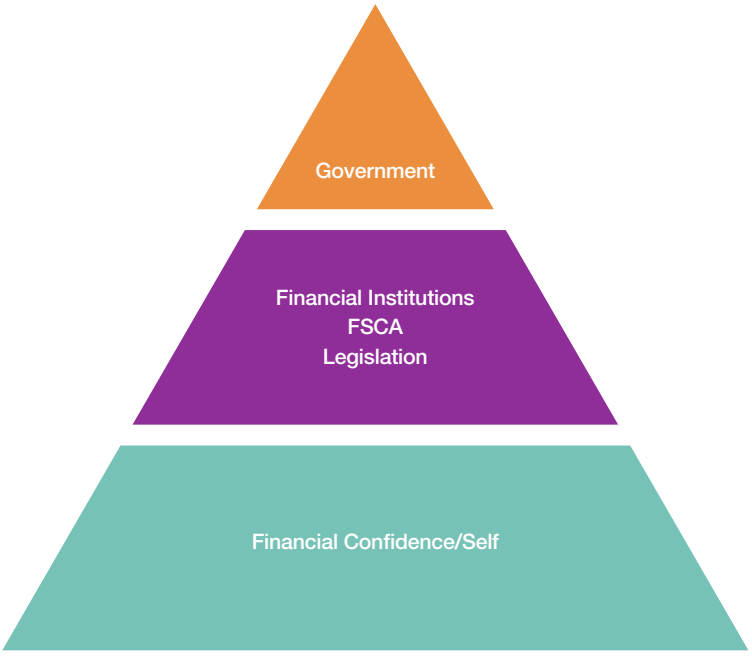
Rebuilding Trust

To address the trust crisis, financial institutions and regulators should focus on:

1. **Enhancing Transparency:** Institutions must be transparent about their perceived conflicts of interest, fees, and the rationale behind investment strategies.
2. **Improving Governance:** Strong governance practices, including regular and independent reviews and audits, are essential to ensure accountability and prevent mismanagement.
3. **Security:** Given the rising concerns about cybersecurity, financial institutions must prioritise robust security measures to protect sensitive data and assets.
4. **Education and Support:** Providing comprehensive financial education and support to empower members and retirees to make informed decisions and feel more secure about their financial future.
5. **Addressing Corruption:** Both political and financial institutions must take concrete steps to combat corruption, which is seen as a fundamental issue undermining trust.

Conclusion

The declining confidence in South Africa's future is a complex issue rooted in economic, political, social, and systemic challenges. Addressing these problems requires a holistic approach that prioritises transparency, accountability, and inclusive growth. Rebuilding trust and confidence in South Africa's future requires concerted efforts from both the government and the financial services industry. Moreover, working to build our members' confidence in their own abilities via communication, education and financial literacy is key. Sanlam's moto of accelerating a better working South Africa where every worker, every family and every community are financially confident is the cornerstone of what we do. As an industry, together with you our clients and intermediaries, we should aim to flip that pyramid upside down so that members' financial understanding and ability are the strongest base, supported by financial products and legislation.



Balancing the books: Understanding employee contributions & costs

Melissa Reddy
Senior Investment Specialist
Sanlam Corporate Investments
and
Adarsh Sundarparsad
Actuarial Specialist
Sanlam Corporate Investments



It's been more than two years since COVID restrictions were lifted. Among the many things that surfaced was the fact that for the majority of South Africans their retirement savings are their primary, if not only, form of savings. This has far-reaching consequences for members' retirement outcomes in the light of the Two-pot go-live date in September, making the monitoring of contribution levels even more important.



For the majority of retirement fund members, contributions to the fund consists of both employer and employee contributions based on their pensionable salary. Pensionable salary is the income used by an employer to calculate a member's retirement fund contribution. This will typically include any fixed remuneration, such as salary or wages, but may exclude variable amounts such as commission, bonuses or overtime. For ease of comparison, all figures in this article refer to pensionable salary (also known as PEAR).

Employer and employee contributions

The average employer and employee contributions for standalone funds, as a percentage of salary, were 10,0% and 7,30% respectively. Total contributions to standalone funds have decreased in 2024 from 2022, mainly because of a decrease in employer contributions.

Contributions to umbrella funds have increased from 2022 to 2024 for both employers and members. Nevertheless, total contributions to umbrella funds remain lower than standalone funds.

	Standalone		Umbrella	
	2024	2022	2024	2022
Employer contributions	10,00%	10,45%	8,53%	8,33%
Member contributions	7,30%	7,08%	7,14%	6,32%
Total contributions	**17,30%**	**17,53%**	**15,67%**	**14,65%**

Administration costs

50% of standalone funds and 69% of umbrella fund participants expressed their administration costs as a percentage of a member's salary. This high proportion has been a continuing trend year on year. 35% of standalone funds and 23% of umbrella fund participants opted for a fixed cost per member per month. Only four standalone funds, 3 of them having more than 10 000 members, expressed their administration costs as a percentage of the fund's assets.

Each of the different administration cost bases has an impact on member outcomes. A fixed rand-per-member approach implies the lowest level of cross-subsidy between members. This is one instance where Sanlam believes cross-subsidisation may be preferred, as the fixed rand-per-member costs weigh more heavily as a percentage reduction on small salaries and have a much smaller effect on large salaries. Funds that use this method of cost recovery lose any administration expense cross-subsidy between higher-paid and lower-paid workers that is present in the percentage of salary approach. Administration costs as a percentage of assets, currently the minority, are more in line with the charging model in the retail savings market.

For those standalone funds that deduct a percentage of salary for administration, the average deduction amounted to 0,51%, increasing from 0,45% in 2022, but remains slightly lower than that recorded pre-2022. The average fixed fee per member for standard members amounted to R66.65, reflecting a 20,5% increase from 2022. Seven funds indicated that they pay in excess of R90 per member per month. As in previous years, members of very large funds (more than 10 000 members) benefit from economies of scale and pay a lower administration fee (0,49%) compared to members of smaller funds (fewer than 500 members) who pay on average 0,78%.

Relative to standalone administration fees, which appear to be increasing, umbrella fund fees have remained stable from 2022 to 2024.



Total provision for retirement

Combining the employer and employee contribution rates, less the administration and group risk costs, the net provision for retirement amounted to 14,12%, as reported in the 2024 Sanlam Benchmark Survey. This excludes any additional costs, like consulting fees.

As this figure can vary significantly from year to year, the table below shows the average provision for retirement over the past three and five survey years (2024, 2022, 2021, 2019 & 2018), which is more indicative of long-term trends.

Very large funds (+10 000 members) had a lower total provision for retirement over the past three survey years relative to smaller funds (<500 members) as a result of lower employer contributions and higher group risk costs. On the other hand smaller funds, despite experiencing higher administration costs, had a higher total provision for retirement.

	Average over past 3 survey years			Average over past 5 survey years
	All standalone funds	Funds with 10 000+ members	Funds with fewer than 500 members	All standalone funds
Employer contributions	10,43%	9,45%	10,54%	10,24%
Employee contributions	7,00%	7,29%	6,95%	6,66%
Deduction for life cover	-1,52%	-1,49%	-1,53%	-1,49%
Deduction for disability cover	-1,21%	-1,21%	-1,05%	-1,12%
Deduction for administration costs	-0,50%	-0,45%	-0,70%	-0,53%
Total provision for retirement	**14,20%**	**13,59%**	**14,22%**	**13,76%**

Group risk costs

39% of employers provide risk benefits (group life and disability cover) via their retirement funds (so-called approved risk benefits), while 17% provide these benefits under a separate scheme (unapproved benefits). The remaining 44% of employers provide benefits via both the retirement fund and a separate scheme. The average deduction to cover the cost of life cover within the retirement funds was 1,45% of pensionable salary.

Will South Africans be able to maintain their standard of living in retirement?

Standalone respondents believe that only 27,1% of their members will be able to maintain their standard of living in retirement, with this number being worse for umbrella respondents at 22,9%. These results are higher than the average result over the past five recorded years. It is still fairly damning that funds are not confident that more than 70% their members will be able to maintain their standard of living in retirement.

When considering increases in life expectancy, 66% of umbrella funds said that they do not think normal retirement age is a reasonable age to allow members to build up enough retirement savings over their working lifetime to maintain their standard of living in retirement. By contrast, 32% said normal retirement age is a reasonable age to accumulate enough savings but only if members have high enough contribution rates.



Alternatives to accessing the savings pot



Koketso Mahlalela
Head: Member-led Outcomes
Sanlam Corporate

The two-pot retirement system is a reform that will allow retirement fund members to make partial withdrawals from their retirement funds before retirement, while preserving a portion that can be accessed only at retirement. This is to improve their retirement outcomes, ensuring more South Africans are able to retire more comfortably.



Currently, members are able to access their entire retirement savings if they resign. With the two-pot system, members will not need to resign in order to access part of their retirement savings.

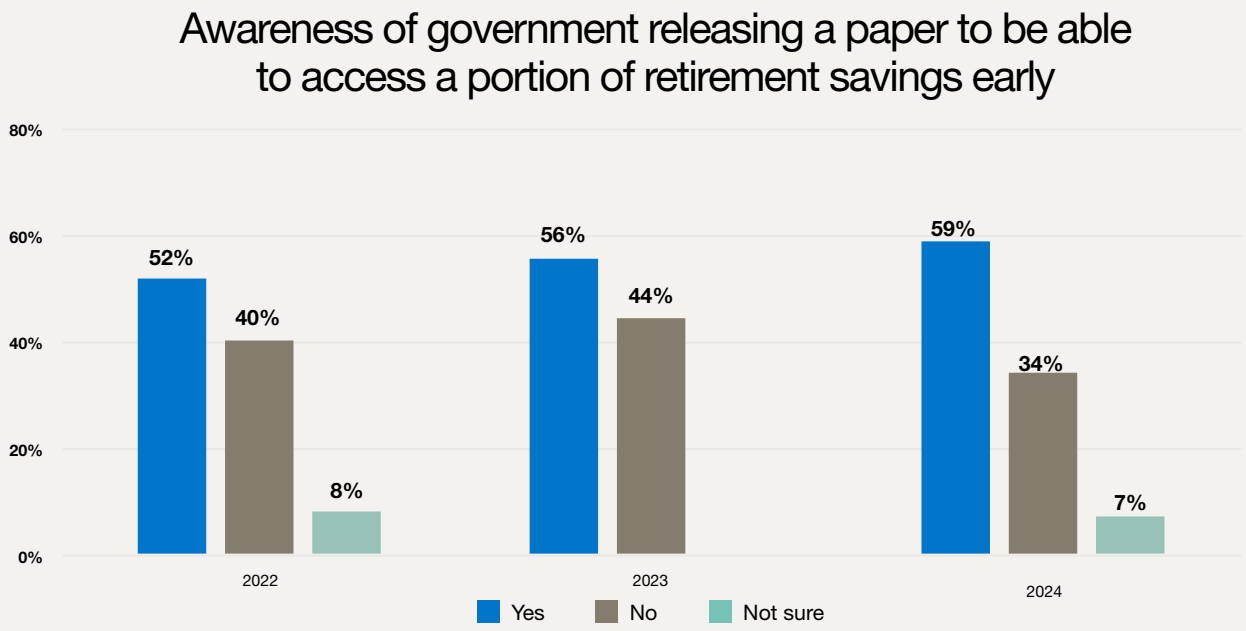
However, the reality for many South Africans is that their retirement fund is the only savings they have. The two-pot system introduces a savings pot and a retirement pot. The retirement pot, which will be built up from two thirds of a member's contributions, will remain preserved until the member reaches retirement age. The savings pot comprising the remaining third of contributions will ideally be accessible when a member is in financial distress. This will be effective from 1 September 2024. It should be noted that the current retirement fund rules will still apply to the vested pot.

Accessing the savings pot will reduce the member's retirement provision and it is understood that at times these funds might be needed for financial difficulties that may occur. The intention of the savings pot is for it to be accessed sparingly and in the event of dire need. This insert explores alternatives for members to access their savings pot and the employer's role in supporting healthy retirement provisions for employees.

Awareness of the two-pot system and the propensity to access retirement savings

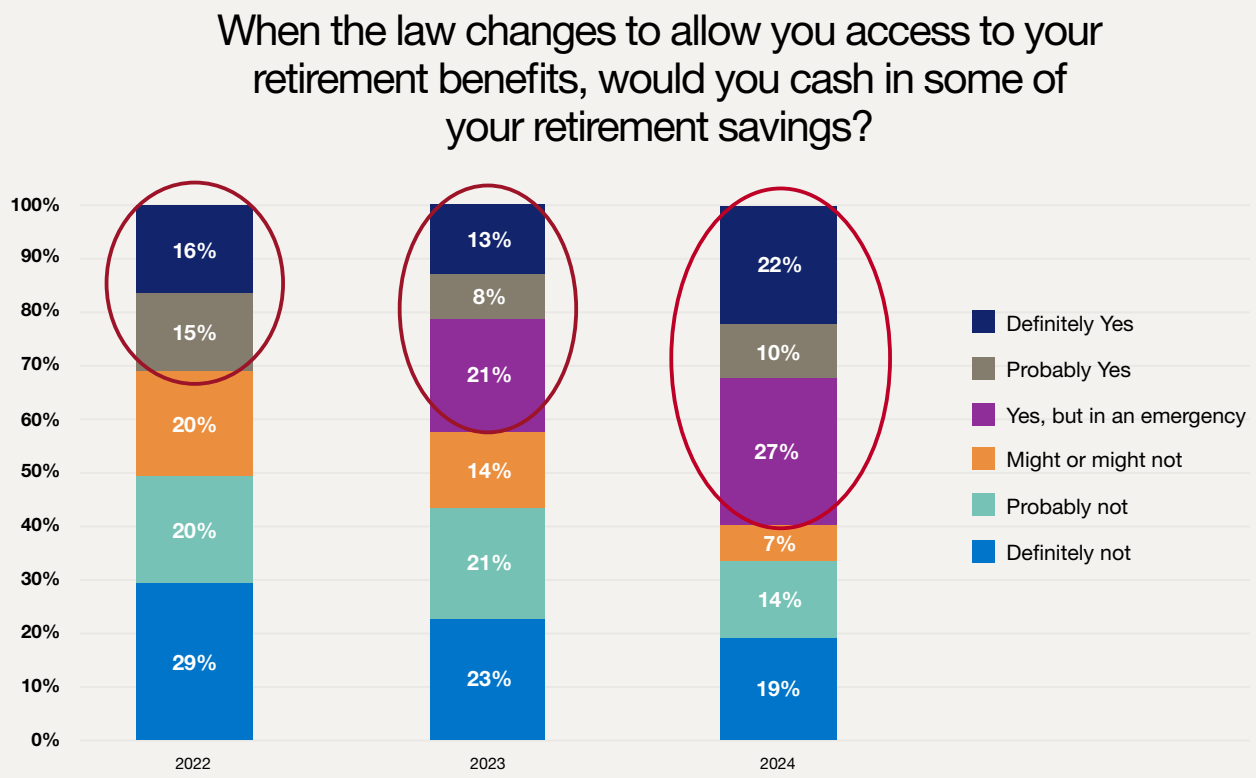
In the current economy, many individuals are either unemployed or underemployed. This means many individuals are without jobs or the full scope of their expertise and training is not used optimally. As we all know, the COVID-19 pandemic exacerbated this situation, with the unemployment rate as at end of Q1 2024 at 32,9%, as per Stats SA. It is clear that we are currently functioning in a strained economy. Given the existing financial strain, the only savings those fortunate enough to be employed appear to have in place are their retirement savings. Hence the need of having earlier access to these retirement savings.

Let us look at the proportion of consumers who were actually aware of the two-pot system and its emergence when the draft paper was initially considered. Results of the Benchmark Survey show that the level of awareness of consumers has increased steadily from 52% in 2022 to 59% in 2024. The increase can be attributed to the constant media coverage, and the budget speech highlights shared earlier this year.



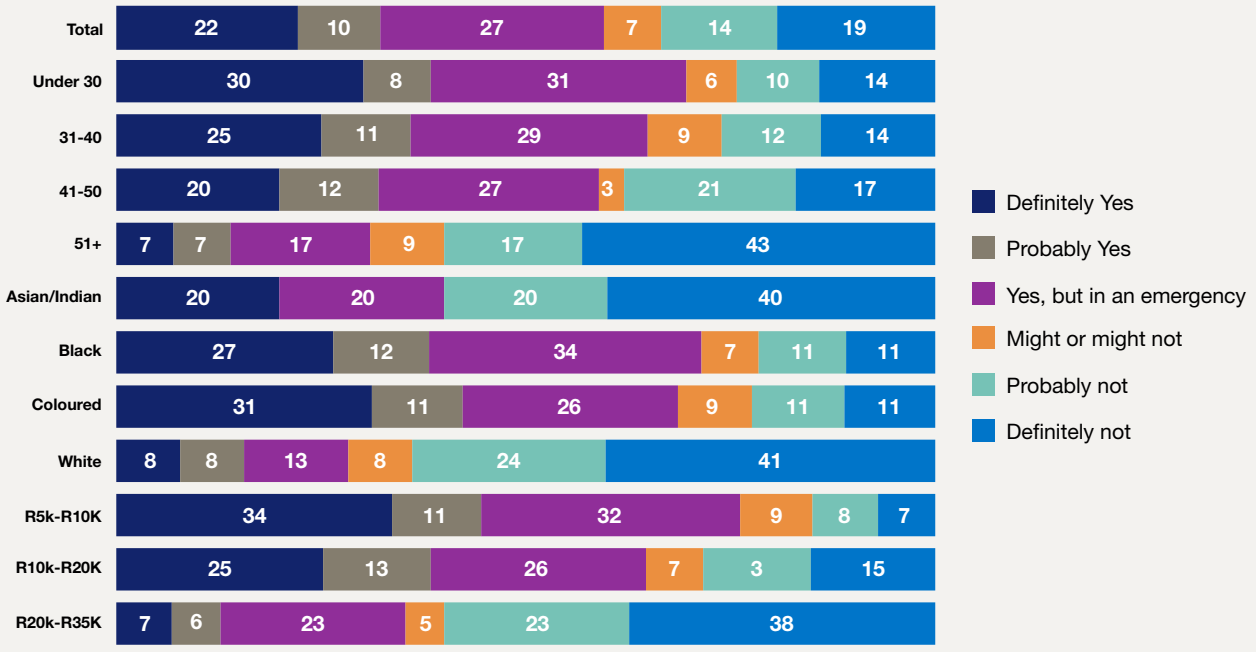


The sentiment regarding accessing funds has also increased gradually from 2022 to 2024.



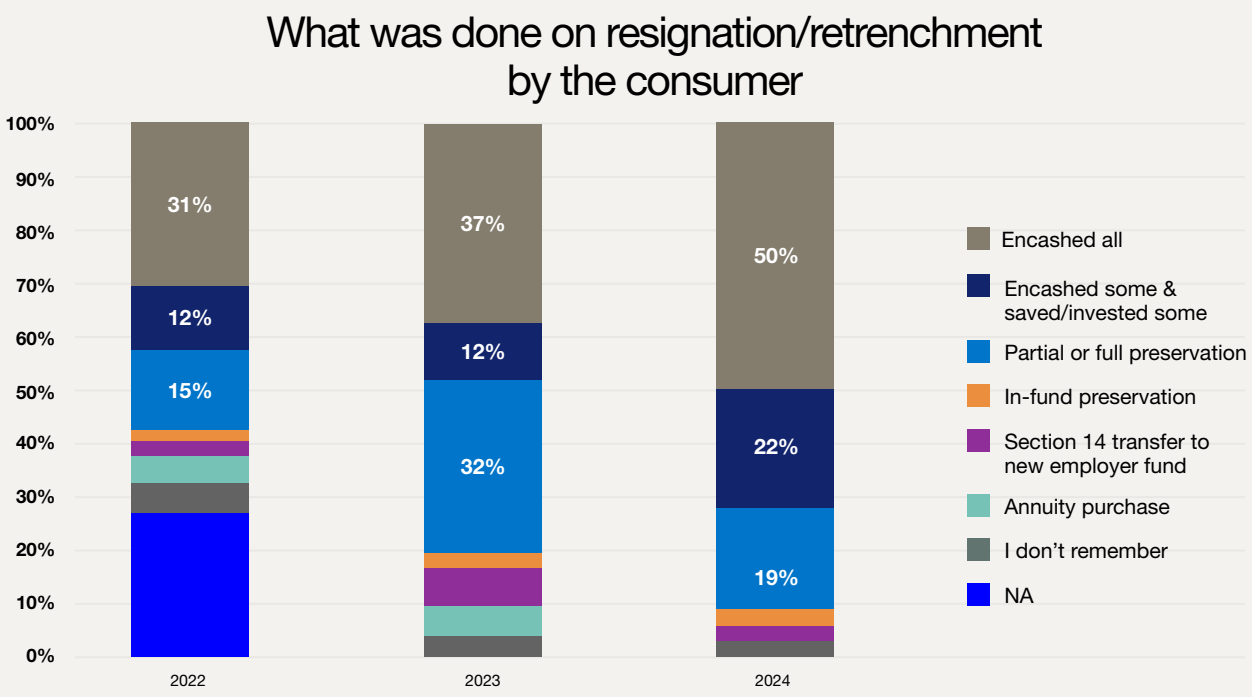
As can be seen in the graph, in 2022 only 31% of respondents had indicated that they would access their funds. This increased to 42% of respondents in 2023, with a steep jump to 59% of respondents in 2024. This is a further indication of the pressures consumers are faced with in managing their finances.

In the 2024 Survey, we looked at the segmented trends of the individuals who shared these sentiments.



In the above graph it can be seen that the sentiment is particularly evident among the youth, lower-income bands, and especially in the black and coloured communities.

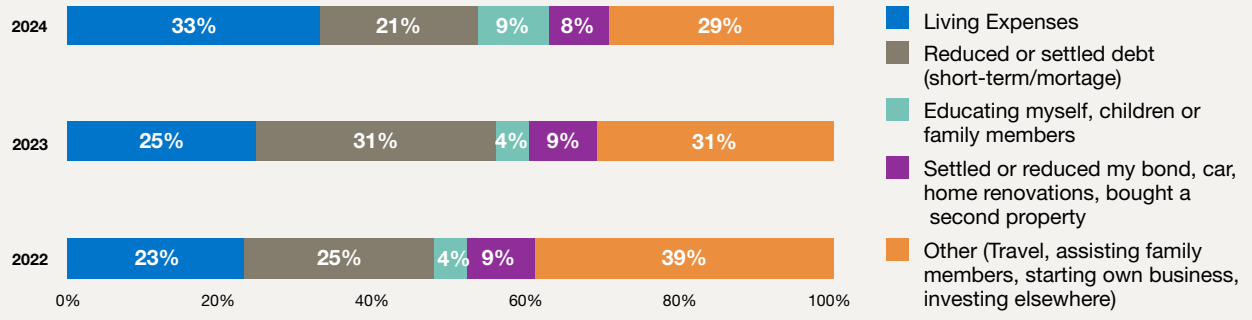
It is interesting to note what people have actually done with their retirement savings when they had the opportunity to access those funds.



In the above graph it is evident that in 2024 only 19% of those who were able to access some of their funds on resignation or retrenchment preserved their funds when changing jobs. This is alarming, given that in 2023, 32% of members would have preserved some or all of their funds on withdrawal from their fund.

The fact that in 2024, 50% of individuals opted to cash in all their retirement funds – a step backwards from the 37% of consumers that cashed in their funds in 2023 – emphasises the increasing financial pressures consumers are facing. This provides the confirmation for the intention and importance of the two-pot system.

It is also important to understand how these encashed funds were spent.



In 2022 and 2023, the majority of respondents opted to use the encashed funds to service, reduce or even settle their debt. A second trend was to use the encashed benefits to manage their living expenses. In 2024, the spend on living expenses shot up to 33% of Survey respondents. Some of the funds were also used for educational purposes or for asset maintenance. Twenty-nine per cent of respondents used the encashed benefits for other diverse purposes.

The main need for additional funding appears to be to **manage debt** and more recently to **meet day-to-day living expenses**.

According to the results of the 2024 Survey, the financial confidence of consumers is mainly defined as follows:

1) For younger consumers, getting through the month
2) For middle-aged consumers, being debt free, saving for emergencies and having a good suite of employee benefits
3) For older consumers, retiring with confidence.

These are all the same themes we saw in the 2023 Benchmark Survey too.

So what are the alternatives to consider in order to improve the financial outcomes of members?

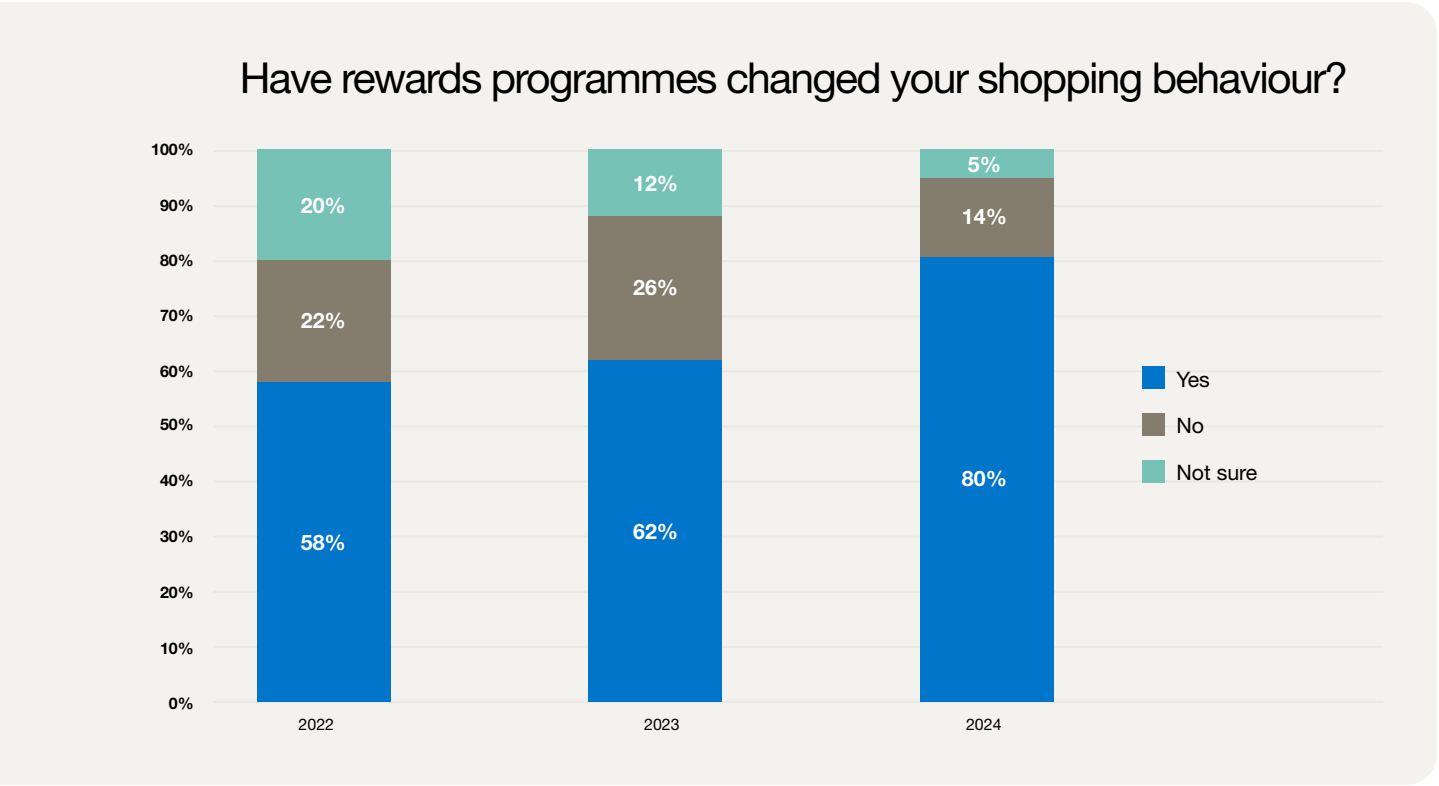
The Survey results make a strong case for the need for disciplined retirement savings while being able to handle the causes of financial distress. Financial distress occurs when an individual is unable to meet his/her financial obligations. The Survey identified the main obligations as being able to cover debt, meeting living expenses, and being able to cover emergencies, which lead one to retiring with confidence.

However, in order to achieve the combination of a good retirement savings culture and being able to deal with financial distress, what other avenues could be explored as an alternative to accessing the savings pot? And what role could an employer play?

Rewards

The 2023/4 South African Loyalty Landscape Whitepaper published by Truth and BrandMapp stated that 76% of South Africans were using loyalty programmes. This usage is commonly observed across different income segments, ages and genders. Wealthier consumers were noted to use an average of 9,4 loyalty programmes, whereas lower-income groups used 4,8 programmes to assist in managing their day to day expenses. The strongest preference was for rewards offering some form of cashback.

In the Benchmark Survey, respondents were asked if they looked to rewards to manage their daily expenses, and whether this had changed their shopping behaviour. The emerging trend over the years has been as indicated below.



A significant upward trend of rewards was observed, with 80% of consumers indicating that they had implemented a change. This corresponds to the Truth and BrandMapp findings as well.

Rewards provided by grocery retailers were the most popular, followed closely by pharmaceutical retailers. Banking rewards were next. Those offered by insurers were on the lower scale.

Further insights from the Whitepaper highlight how rewards and loyalty programmes essentially influence certain behaviours:

Which of the following things are sinnificantly influenced by the loyalty programmes you belong too?

- Mass Market consmers

71%	Where you shop for groceries
51%	Where you bank
35%	Where you shop for clothes
29%	Where you shop for health & pharmaceuticals
18%	Which restaurants & coffee shops you use
15%	Where you buy fuel
7%	Where you buy insurance
5%	Which airlines you use
4%	The hotels you stay at

Source: MoyaApp - Mass market consumers.

When we consider the main areas of spending, rewards provide a way to review one's current budget and lifestyle. A change in one's lifestyle, choosing more cost-efficient brands, for example, could provide a means to tackle some of one's daily expenses.

Employers, funds and group arrangements providing these rewards, or access to discounts, also play a role in assisting employees in managing their living expenses. In the latter part of last year, Sanlam Corporate launched the Wealth Bonus Lifestyle benefits for Sanlam Corporate members. These assist members in managing their day-to-day expenses through a comprehensive offering of discounted services.

Budgeting

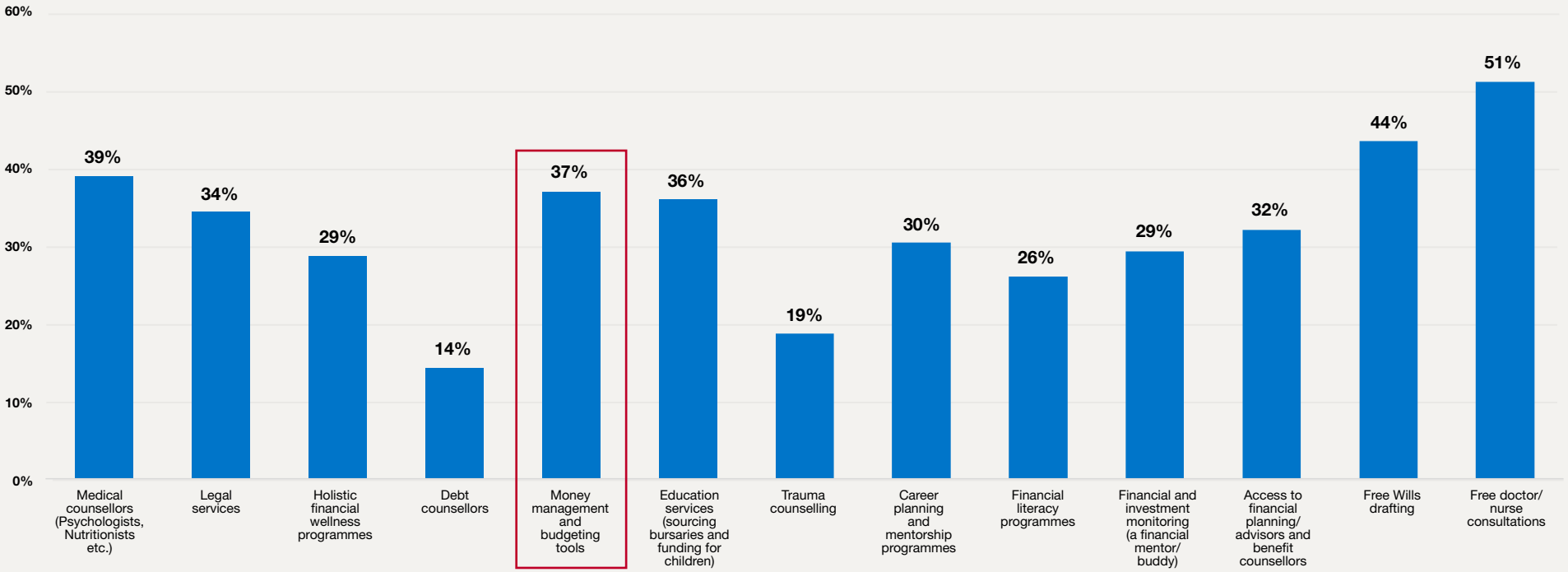
Rewards and changed shopping behaviours coupled with making use of budgeting tools could go a long way in managing living expenses. If we dial back to the 2022 Benchmark Survey, we saw close to 3 out of every 5 consumers beginning to live more frugally, cutting out luxuries as a means of managing their financial circumstances as a result of the pandemic.

Fast forward to 2024, we see good financial well-being continuing to be a challenge for most consumers. Budgeting allows individuals to plan their expenses vs income and to understand where they can start to reduce some of their daily expenses or even enhance their monthly income. Managing expenses is probably the easier solution, especially in our current economy, although other income opportunities could be made available through the gig economy.

This is where employers can play a pivotal role in providing support to employees. In the Benchmark Survey of 2022 many respondents indicated that this would even be a tool employees desired from employers in managing their day-to-day expenses.

Desired employee benefits through employer

Participants could select more than one option



One of the tools we've incorporated for our fund members, a financial quiz, takes it a step further and encourages members to think about whether they:

- have sufficient coverage/breakdown for their own budgeting process;
- have a will in place;
- have sufficient cover for a risk event (death, disability, critical illness); and
- are saving sufficiently for emergencies, for planned events and retirement

The aim of this exercise is for a member to be able to assess his/her financial situation and be in touch with a retirement benefit counsellor (RBC). The RBC would then direct the member to his/her appointed contracted financial adviser. This is to assist members to make better financial decisions in managing their money for their betterment and that of their family.

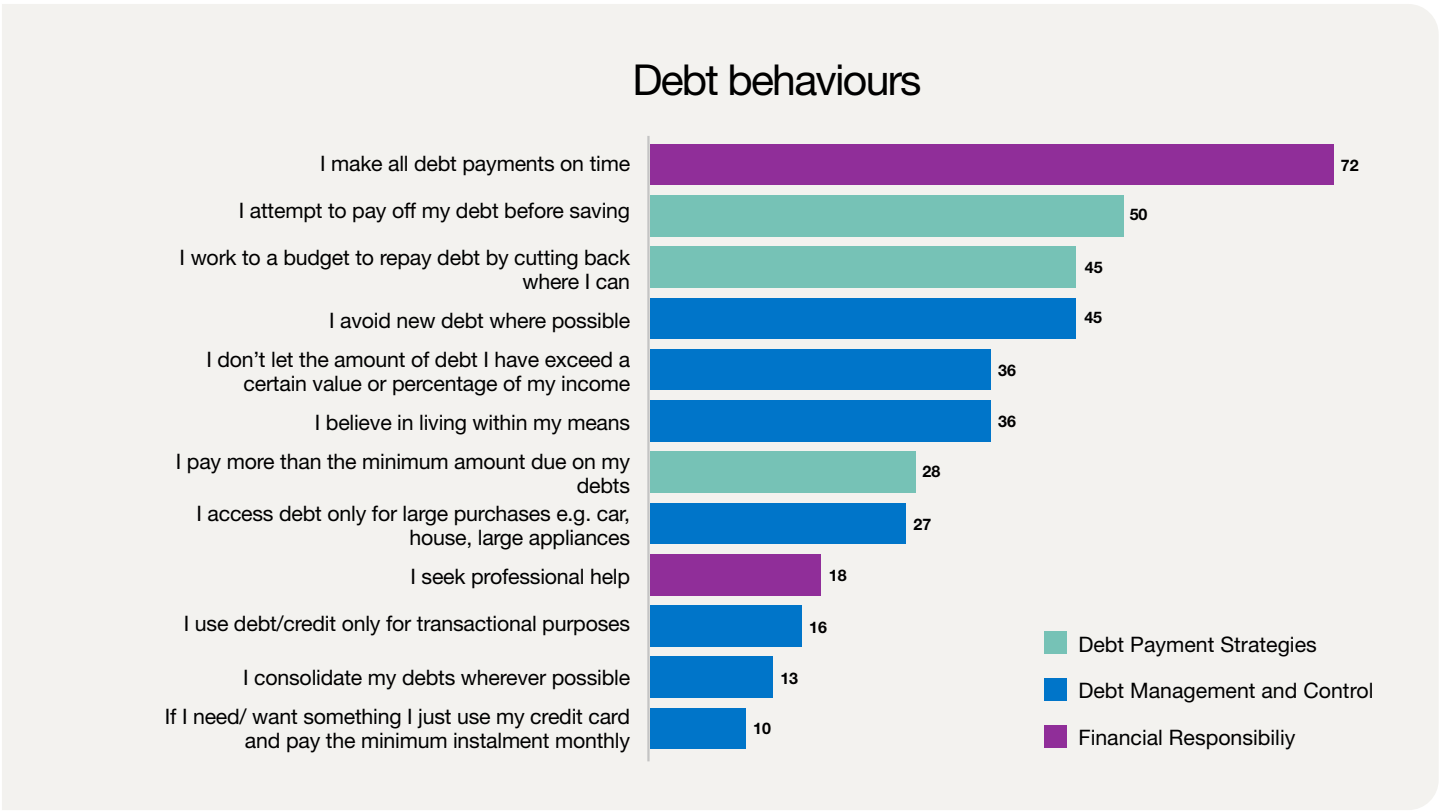


Managing debt

Debt seems to be the one of the main reasons members associate with being in financial distress, in other words for individuals wanting to tap into those retirement savings. As stated earlier, being debt free is one of the main definitions for being financially confident.

So, what's the alternative to accessing one's savings pot to manage debt? The best would be to consider a solution that is sustainable and does not impact one's other financial goals.

Some of the consumer debt behaviours that emerged from this year's Survey are the following:



We see that members:

1) Take their debt seriously and prioritise to pay their debt on time
2) Prioritise paying off their debt versus increased savings
3) Manage their debt by accessing it for large purchases such as a car or a home, including home upgrades. These would even include installing a solar system to alleviate struggles introduced by load shedding.

This is where pension-backed home loans become one of the key differentiators in how one can manage one's debt. A pension-backed loan provides an alternative property financing solution as long as the funds are used in accordance with the Pension Funds Act. It is specifically used for settling:

- Home loans (paying it off in full or in part)
- Renovations
- Energy-saving solutions.

This does not reduce one's fund credit. One's retirement savings remain the same and continue to grow as one makes contributions. The only difference is that a portion of the funds will be used as security until the loan is paid up or one exits the fund prior to the loan being paid up. The instalments are likely to be deducted from one's monthly salary.

There are of course limitations, such as the loan may be dependent on the amount of retirement savings one has available. So, managing the instalments and ensuring an affordability assessment is done are key to ensure this is a tool that can be leveraged in a smart way. Favourable borrowing rates could be negotiated as a result of using the pension fund as collateral, which also begins to introduce some additional savings in managing debt.

The gig economy

The elements mentioned thus far have focused mainly on how to manage the expenses side of one's household budget.



But what about the other side of the income statement, in other words increasing the net income factor? ` Sure, a great way to increase this component could be to walk into the boss's office and requesting a big salary increase, but in this economy such a conversation might not go down well.

This highlights the significant role the gig economy plays in increasing consumer household revenue. It refers to the system whereby people can start engaging in freelancing or side employment outside of their day-to-day corporate jobs. When leveraged well, that side job (or side hustle) could increase that money bag significantly to deal with what is deemed financial distress.

So, what happens if this side hustle becomes significant enough to be able to cover the financial distress with which consumers are often faced? It begins to further reduce the need to access retirement savings (i.e. savings pot). And this is a space where employers can still play a role.

Sanlam recently launched the Kas'lam campaign, which is focused on promoting informal business in townships, ultimately uplifting the township economy. By providing support and the tools needed by entrepreneurs in the township communities, it enhances the returns achieved by these businesses. All in all, this highlights an aspect of economic growth and provides an alternative income stream to individuals in society.



Financial education

What continues to remain key is the importance of financial education for consumers to manage their retirement savings behaviour. Financial education around the two-pot system and the implications thereof is essential to ensure members are well informed of the implications of the decisions they make.

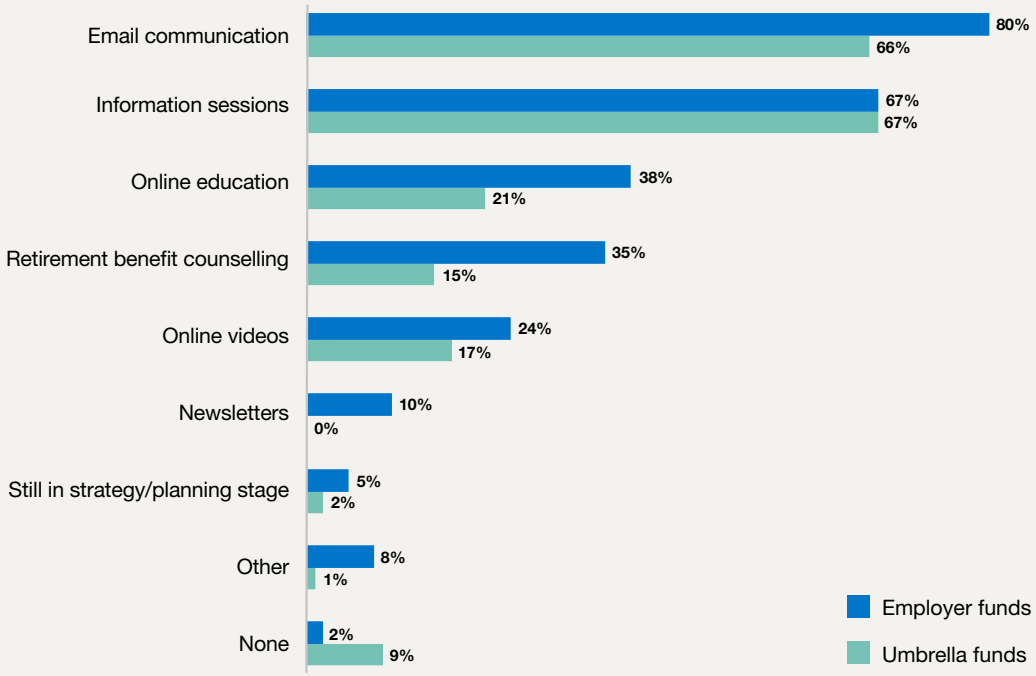
It is important to highlight that the rules of the fund will still apply to the vested pot. This means the risk remains that an individual could decide to withdraw all his/her funds on resignation or retrenchment, ultimately depleting a significant portion of his/her retirement savings. Individuals need to understand that the withdrawal of all their funds would result in:

1) Loss of funds due to tax at withdrawal rates
2) Reduced retirement savings, meaning that they would compromise their accumulated savings at retirement and become part of the majority that do not have enough saved for their golden years
3) The possibility of not having sufficient funds in retirement to cover additional health costs associated with old age, or to maintain their current standard of living.

Continual withdrawals from the savings pot could also result in the above three scenarios. Hence, financial education and employers getting on board with this are crucial. It is a role employers need to play to ensure the well-being of society.

From the pensioner survey we see the following strategies to be adopted by the combination of standalone employer funds and umbrella funds:

Industry member education strategies planned for Two-pot implementation



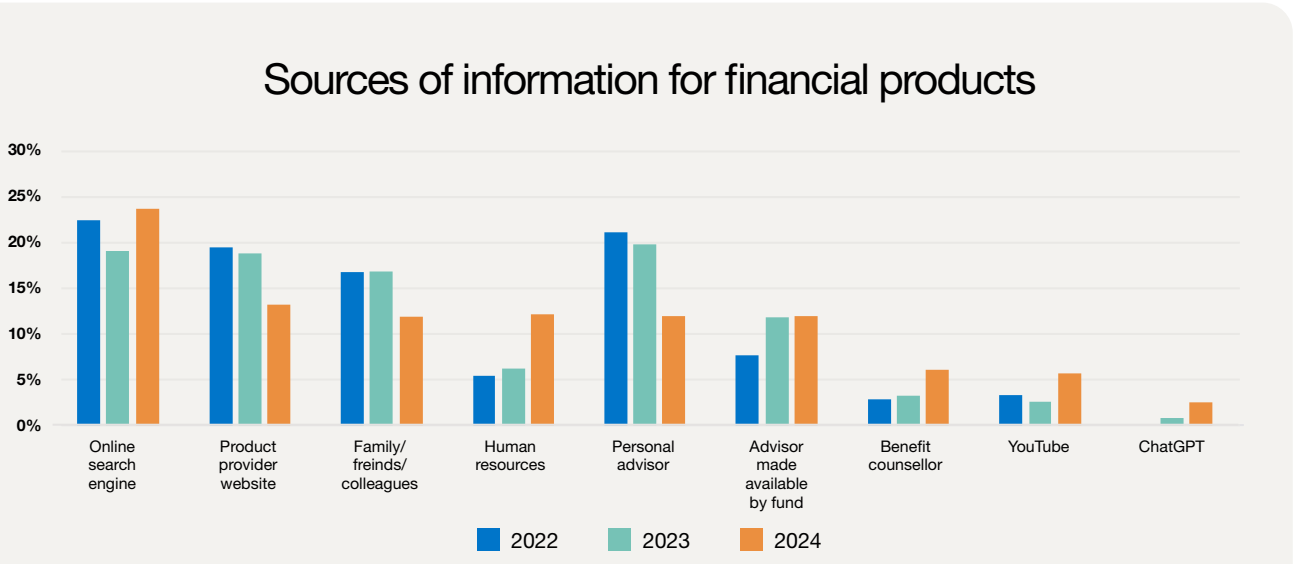
At Sanlam, we will adapt similar strategies with a large focus on emailers, member newsletters, and Imali Zam webinars to educate members on the two-pot system. In addition to the above, we will also be incentivising members who demonstrate a good understanding of the two-pot system. We want members to especially understand the long-term implications the two-pot system will have for their ultimate retirement and well-being. Through Individual Member Support, members will also have access to retirement benefit counsellors who will be able to refer members to their contracted financial advisers as a means of providing the best advice to best meet their financial goals.



Financial advice

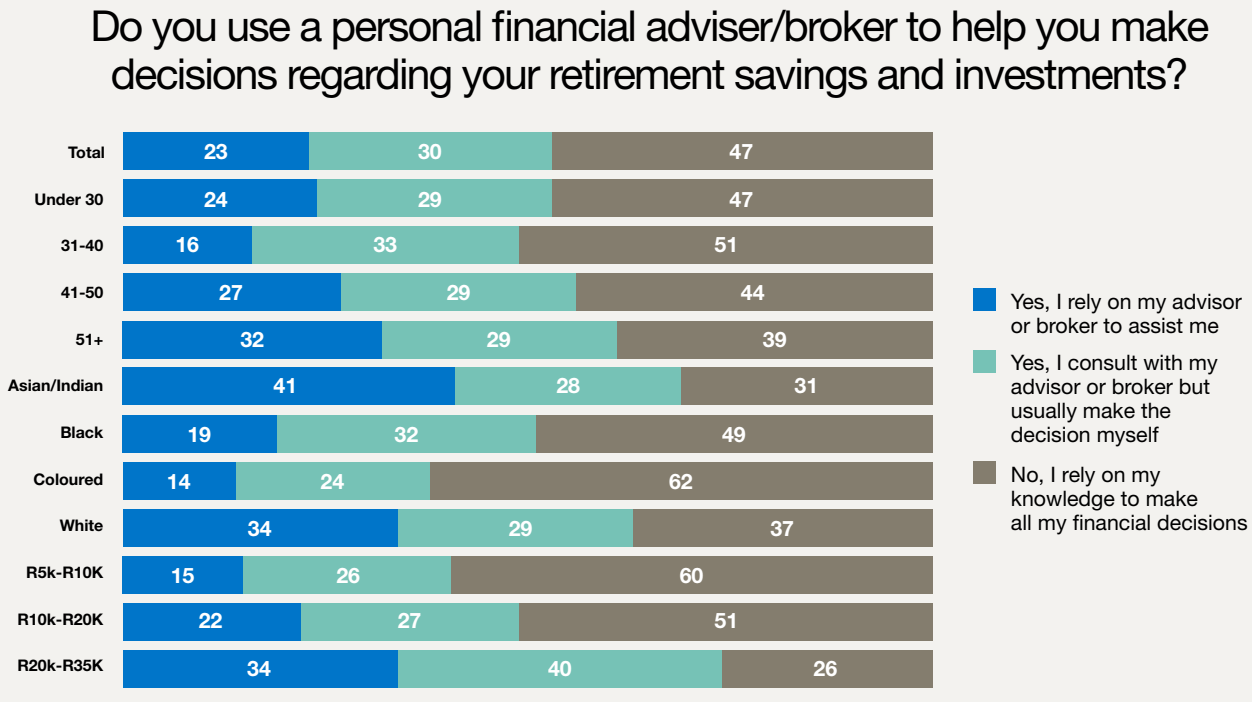
The education element further highlights the importance of financial advice. A financial adviser will be able to map out members' specific financial needs, identify gaps, and come up with a financial plan that is best suited to their circumstances, risk, savings, health and other protection needs.

If we look at where individuals seek information on their financial products, the following trends emerge:



It is evident that more consumers are opting to make use of search engines and product providers' websites when thinking about financial products in which they may be interested. This, however, misses the personal overview of understanding one's current financial profile or standing, which would have been provided by a financial adviser.

When looking at the need for financial advice, specifically with regard to retirement savings, the following trends emerge:



Forty-seven per cent of individuals are left to their own devices, which is worrying given the complexity of financial products. Considering the use of a contracted financial adviser or a personal financial adviser could simplify some of these complexities.

A financial adviser will also be able to advise individuals on the alternatives to withdrawing from the savings pot. If individuals understand their financial situation, it will assist the financial adviser to utilise the best alternatives for them based on the financial products available to suit their needs.

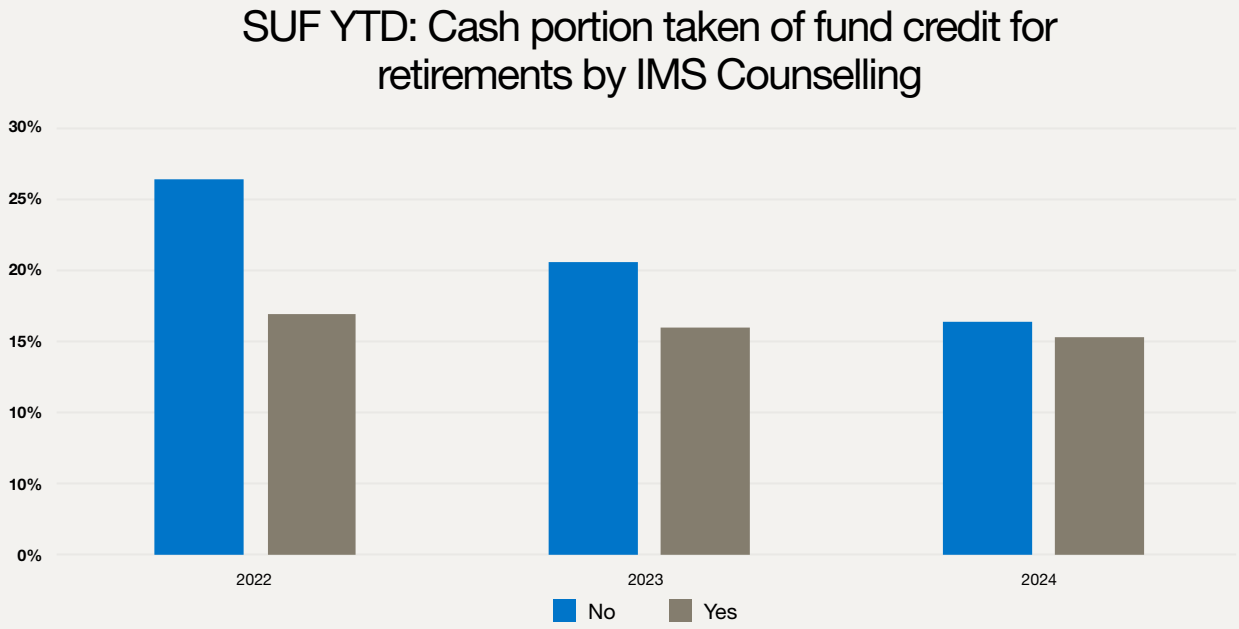
Employers on the fund have contracted financial advisers, making access to financial advice accessible and affordable to members.

Retirement benefits counselling

Retirement benefit counsellors provide information and education to members when exiting from their fund (whether exiting to a new employer or when approaching retirement). At Sanlam our counsellors engage with members beyond withdrawal and retirement, including engagement with risk beneficiaries as well as those members joining the fund. We recently also expanded our reach to active members of the fund, providing them with an opportunity to reflect on whether they are making enough provision for their future selves. We look at their replacement ratios and retirement savings to date. We do so through WhatsApp, making it convenient for the member. This emphasises that we are committed to driving the education of members.



As highlighted in previous Benchmark insights, we continue to see the benefits of retirement benefits counselling and the effect thereof on financial decisions made. When we assess the Umbrella Fund and decisions made at retirement, the graph below highlights how, after being counselled, members would have selected to annuitise more of their benefits compared to those not counselled.



Retirement benefit counselling is there to support the various communications and interactive videos available to members to understand the implications of withdrawing from the savings pot.

Package modeller and additional savings

I encourage everyone to consider making use of the package-modeller capabilities made available by the employer. With the package modeller one is able to contribute a part of one's monthly salary, to be paid out as separate lump sum at the end of the financial year. This provides a good mechanism for members, on an annual basis, to bridge the gaps with which they may be faced. Making use of this capability reminds members to pay themselves first (through saving) and not disrupt the income of their future selves by tapping into their savings pot.

Through changes in our financial behaviours, planning appropriately so we can live within our means and considering alternative streams of income, we can begin to see alternatives for accessing the savings pot. Taking advantage of the different avenues mentioned above can begin to alleviate some of the financial pressures. If we do so, especially with the aid of the employer, we will reap the benefits and hence accelerate a better working South Africa.



Overcoming the default paradox

Karen Wentzel
Head: Annuities
Sanlam Corporate Investments
and
Boitumelo Ngoepe
Actuarial Specialist
Sanlam Corporate Investments



As retirement approaches, individuals, most of whom have spent years invested in pre-retirement default options, face a crucial juncture. This period is like travelling a well-guarded highway with default investment options serving as sturdy guardrails, ensuring a safe and steady journey towards retirement.



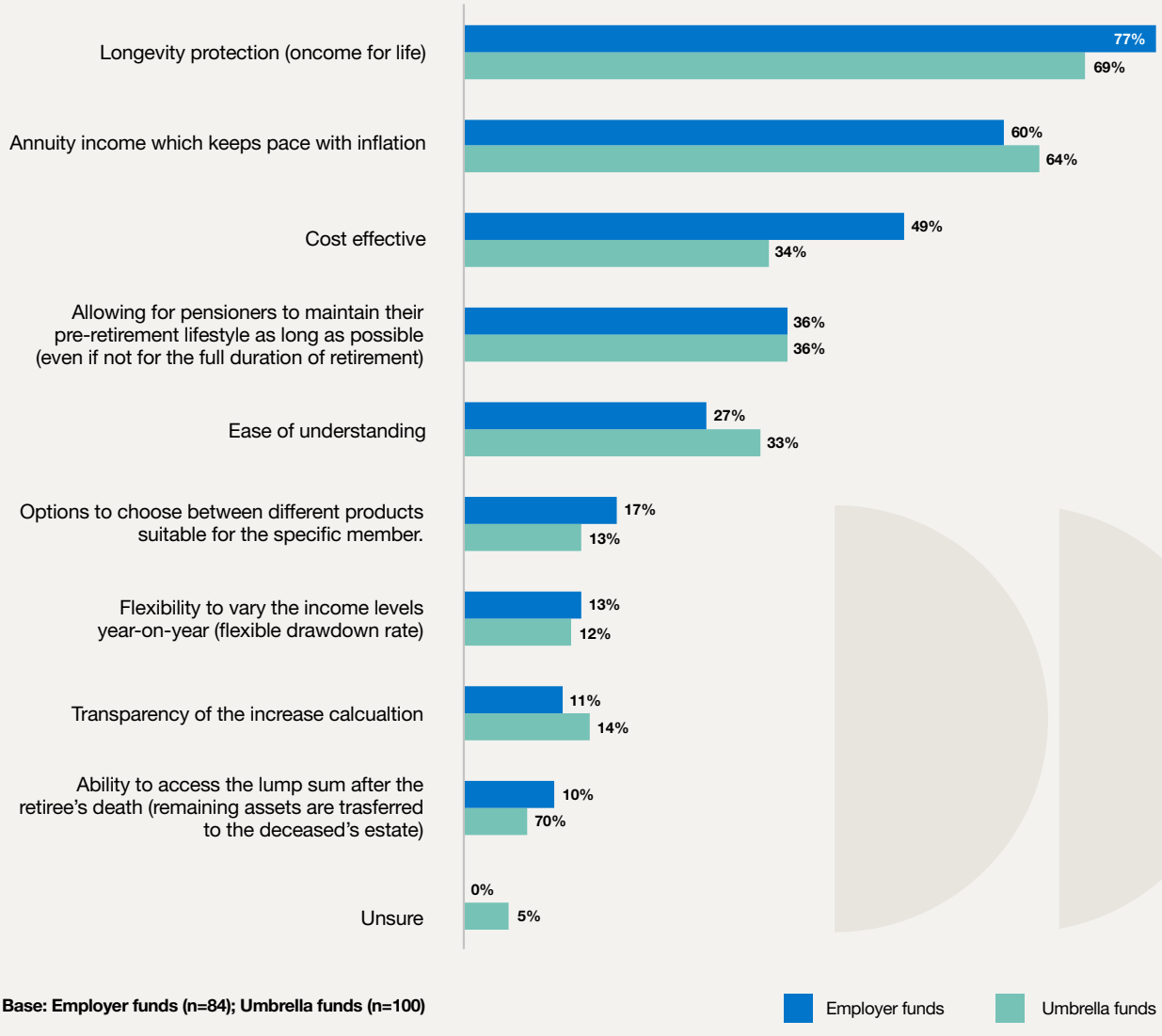
However, upon reaching retirement, the landscape changes dramatically and these guardrails often disappear, leaving retirees to navigate the complexities of retirement choices without the same level of guidance. This transition demands careful consideration and awareness of all the options available to retirees, given the long-term consequences they face.

Most people, having relied on default investment strategies for years, might not be fully aware of the numerous options available to them at retirement. Trustee-endorsed options, set up in line with Regulation 39 requirements and often meticulously designed to balance cost-efficiency with financial security, can be a valuable resource. However, these options frequently go unnoticed, as members are not aware of their fund's trustee-endorsed solutions.

This is the Default Paradox: In pre-retirement, most members leave the hard work of picking an investment portfolio to the trustees, but when they reach retirement, they choose to navigate this seemingly complicated decision without the help of the trustees.

Trustee-endorsed retirement options are akin to having expertly designed guardrails in place, tailored specifically for the retirement phase. These options are curated by knowledgeable trustees who understand the nuances of retirement. They typically offer lower fees, prudent risk management, and tailored strategies that align with a retiree's changed financial goals and risk tolerance. Just as the default pre-retirement investments are geared towards accumulation, the trustee-endorsed options focus on longevity protection, cost effectiveness and inflationary increases. The priority trustees give to these three features is reflected in the results of the Benchmark Survey.

Important feartures of a trustee-endorsed annuity strategy



Base: Employer funds (n=84); Umbrella funds (n=100)

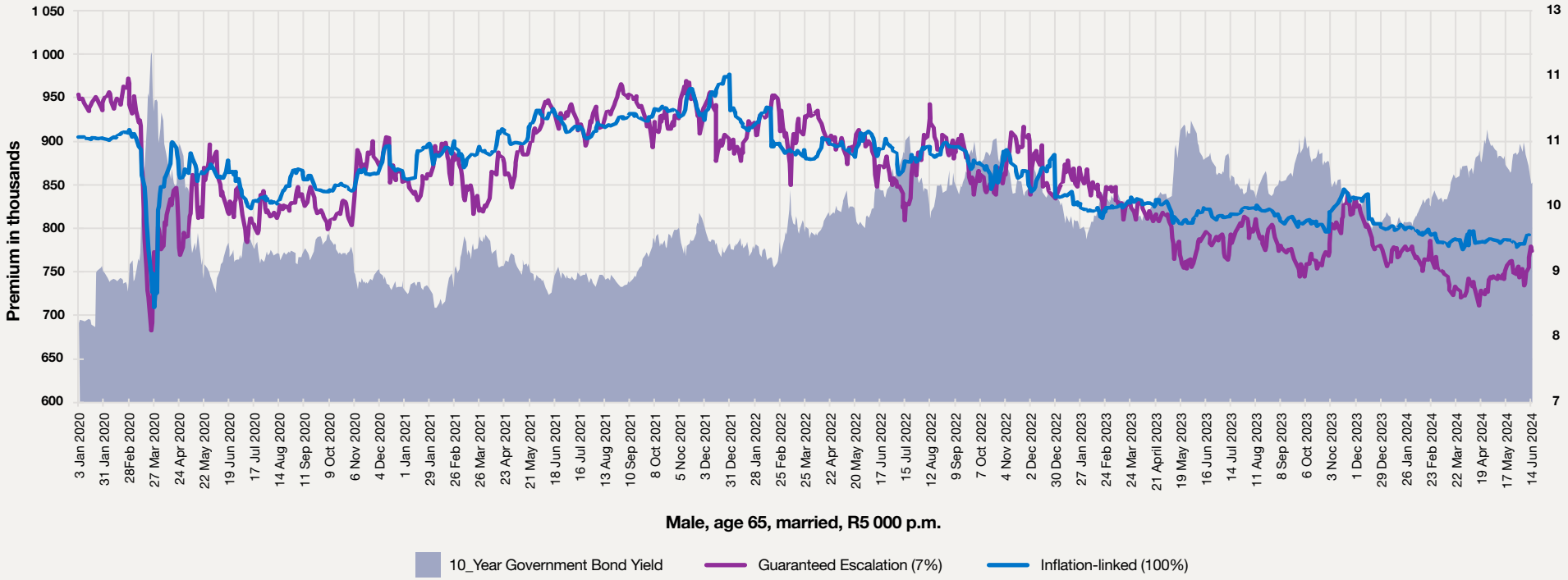
One of the main advantages of these trustee-endorsed options is their cost-effectiveness. Trustees use their bargaining power to give members access to annuities at institutional prices, similar to wholesale prices, and members have a responsibility to actively pick one at retirement. In their 2023 Actuarial Paper "*Fairness of annuity pricing for low-income earners in South Africa*", J Combrink and D Taylor Indicated that the price of an annuity in the retail vs. institutional market can vary between 6% and 27%, depending on the insurer, product and category of member.

Trustee-endorsed options are often designed and negotiated by funds to ensure retirees get the best value for their money. Many members are not aware that these options are available and of the potential difference in the monthly income they can receive in retirement. For Sanlam, of the 100 funds with trustee-endorsed annuity strategies, only 35 funds had inflows in the past four years. A staggering two out of three members are missing out on this opportunity to get institutionally priced annuities.

There are different reasons for this; it is, after all, one of the biggest financial decisions most people make in their lifetime. Everyone's circumstances are different – how much they've saved compared to their living expenses and retirement plans. Locking their savings into a life annuity may not be the best option for everyone; however, the current economic climate makes this option worth exploring.

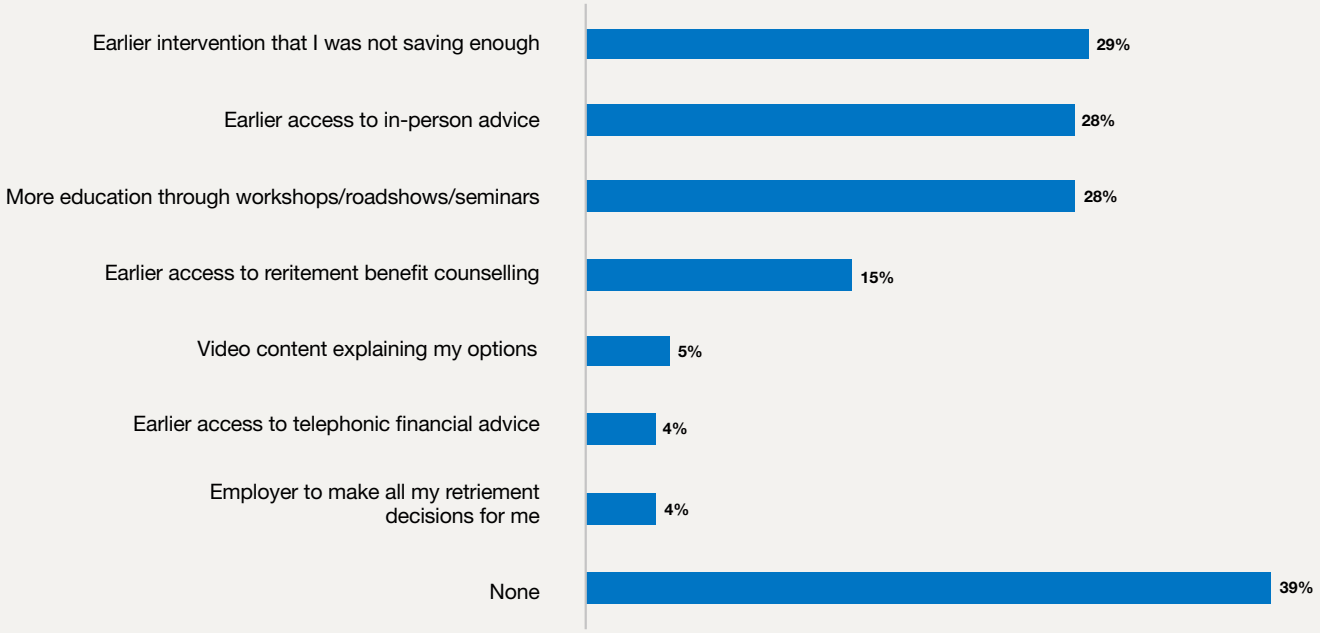
High interest rates over the past 12 months have meant that South Africans retiring during this period were able to derive even more value for money from life annuities. While interest rates remain high, it is an ideal time for retiring members to lock in great annuity rates. The graph below shows how the initial investment or premium has decreased, due to high interest rates, for a 7% guaranteed escalation and an inflation-linked annuity where the starting income was R5 000 per month.

Effect of nominal yields on the price of a guaranteed life annuity since Jan 2020



Trustees have a huge obligation to make sure that members are equipped to make the right decisions. With the right level of counselling, trustees can ensure that members are not overwhelmed or confused when making decisions.

61% of retirees surveyed said that they would have liked additional support on issues related to finances before retirement.



As members approach the retirement phase, it is essential for them to step off the beaten path of default investment options and explore the trustee-endorsed alternatives available. These options offer a cost-effective, well-managed, and secure way to navigate the financial complexities of retirement. The more trustees and retirement funds communicate the options available, the more these options become established as being important for members to factor into their decision making. Members who take the time to investigate these trustee-endorsed choices can ensure that their hard-earned savings are protected and optimised, providing a stable and secure foundation in their golden years. Much like guardrails on an unfamiliar road, trustee-endorsed options provide the necessary support and security to guide retirees through their retirement journey with confidence.



Paradox of choice and the age of defaults



Danie van Zyl
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We've all been there, scrolling through our various streaming services searching for something to watch. Going back and forth between different options, even watching a few trailers, and despite the many good options we are unable to decide. After all, no one wants to waste their time watching something they won't like, so you spend more time scrolling through all the options.



With the advent of defined-contribution funds in South Africa during the nineties, most members of private retirement funds also found themselves with a range of options while saving for retirement. In which portfolio should they invest, how much should they contribute, what level of life cover is appropriate? While some retirement fund members thrived on all the options available, many found the options and responsibility to decide overwhelming.

Over numerous Benchmark Surveys since the early 2000s a picture has emerged of decision making moving from trustees to members, with members struggling to adapt to their new responsibilities, worrying that the wrong choice would lead to a catastrophic retirement outcome. During that time American

psychologist Barry Schwartz published a book, "Paradox of Choice: Why More is Less". While recognising that freedom of choice allows us to act on our own and to do things that will maximise our welfare for our individual circumstances, the converse is also true, i.e. the more options we have, the fewer decisions we make. He states that having too many choices might cause anxiety, stress, and depression instead of happiness.

It is with this mindset that Sanlam argued in several Benchmark Symposiums that members need guidance at every decision point, preferably in the form of a default option. To their credit, some retirement funds introduced default options early on, while others waited until they were forced to do so by the introduction of the so-called Default Regulations in 2017.

Enter the age of defaults – a trustee-approved choice for those members who are decision avoiders. Initially adopted by trustees to deal with a specific issue – whether investment, level of life cover or contribution rates – these default options are now taking centre stage. Taking this a step further, we also see that 77% of standalone funds now have a target pension that their fund works towards, up from 48% in 2016. By linking the target pension a retirement fund is aiming for with the various default options, trustees are helping members to a better retirement outcome by providing a holistic plan for a member's retirement journey from day one of employment to retirement.

Default options aligned with standalone funds' stated target pension:

69% have aligned their default contribution rate.

60% have aligned their default investment portfolio.

The target level of retirement income for an average fund member may differ across retirement funds as it should consider the competing needs of all fund members. We have seen in our 2024 Survey that most of these funds target a net replacement ratio of between 70% and 75% of pensionable salary. Once a target pension is selected, all benefit options and fund communication and education initiatives should be designed (and framed) to align with this target. New employee induction programmes remain the ideal starting point to create awareness of the target pension.

Although members can opt out of these default options, few do as opting out requires an active decision and some form of action. Decision avoidance results in many members ending up with the default option. Few members move away from this default choice due to inertia.

Standalone retirement funds also provide regular communication to members regarding their retirement readiness. This often includes a member-specific projection of income at retirement (46% of funds), a net replacement ratio projection (42% of funds) or a red, amber and green traffic light-type graphic (27% of funds).

Some funds also monitor and send targeted communication to members with low replacement ratios/projected income in retirement. This includes email notifications (39% of funds), setting up a meeting with an adviser (13% of funds) or a phone call from a retirement benefits counsellor (11% of funds).

Turning to a funds default investment strategy, most respondents (54% of standalone funds) offer a default investment strategy while allowing members to opt out and choose their own portfolio. Despite the ability to opt out, 87% of standalone fund members are invested in the default investment strategy. This figure has remained consistently above 80% since 2015.

Most often the default investment strategy is a lifestage strategy (75% of standalone funds), with members being invested quite aggressively at younger ages and then derisking closer to retirement. 79% of those standalone funds with a lifestage investment strategy have explicitly aligned their lifestage strategy with their trustee-endorsed annuity strategy at retirement.

Is it important that the investment strategy provide stable investment returns to protect against market volatility?

62% of standalone funds agree

71% of umbrella fund clients agree.

Many of the pensioners interviewed in this year's Survey indicated that they wanted more guidance and support while saving for retirement. By introducing well-thought-through default options, retirement fund trustees can help reduce the anxiety and stress members experience when faced with unfamiliar and daunting retirement fund choices, thereby helping accelerate the development of a better working South Africa. So go ahead, let the algorithm pick something to watch – it knows what people like you want to watch!

Getting retirement ready



Oletilwe Ramashala
Head: Business Development and Strategic Partnerships
Sanlam Corporate: Distribution

"For many, retirement is a journey of personal growth, leading to greater freedom."
— Robert Delamontagne





When you first enter the job market, retirement seems like a distant event that will somehow take care of itself. This is far from reality. Retirement planning often takes a back seat to making ends meet and maximising take-home pay.

My first introduction to saving for retirement was at my first employer where I was told that I could choose to contribute between 7,5% and 27,5% of my income, and that a higher percentage would reduce my take-home pay. As a young and naive professional I opted for the minimum 7,5% contribution, without doing my own research or speaking to a registered financial adviser. In hindsight, this decision cost me dearly as I lost out on compound interest and any tax savings. As Albert Einstein once said, "Compound interest is the eighth wonder of the world. He who understands it, earns it ... he who doesn't ... pays it." While this quote may seem exaggerated, the mathematics behind it prove otherwise. Over a 15 years working career, I lost out on years of compounding, impacting the size of my retirement savings.

If only I had consulted an independent financial adviser, or a retirement adviser affiliated with my company's retirement fund, where a simple needs analysis could have helped me understand my financial situation, retirement objectives, and

risk tolerance. At that time, I was living at home and only had car loan repayments, so I could have afforded a higher contribution since I had minimal debt.

I was unaware that companies with standalone pension or retirement funds could provide better financial education through service providers or could transition to umbrella funds. Effective communication of retirement planning involves simplifying complex financial concepts and tailoring information to the specific needs and goals of employees.

The use of clear, jargon-free language to explain retirement savings options, investment strategies, and potential outcomes would have been a game-changer. Visual aids or examples to illustrate concepts, along with encouraging questions to ensure comprehension, are crucial. Emphasising the importance of starting early, making regular contributions, and adjusting plans as circumstances change, is essential. Building trust and fostering open communication can guide employees towards a secure retirement. This was highlighted in the Benchmark pensioner survey, with 61% of pensioners saying they would have liked additional support on issues related to finances.

My parents, both teachers, did everything they could to provide their children with the best education and opportunities. However, discussing money was somewhat of a taboo in our household. Like almost a quarter of pensioners surveyed, one of my dad's biggest regrets is not contributing more to his pension fund. He often complains about his income in retirement. My mom, on the other hand, was frugal and wise about money, and is happy with her retirement income. Fortunately, both their cars and house are paid off, but healthcare and general living expenses remain costly.

The biggest lesson I've learnt is how important it is to introduce financial literacy at an early age, especially for my 9-year-old daughter. This realisation has made me accountable for my actions and prompted me to simplify financial concepts so that she can understand them and make better financial decisions.

I now view retirement as an opportunity for reinvention and a chance to do things differently for myself and my family. With better planning, one can look forward to a more confident and secure retirement. Numerous research papers suggest that having a retirement income equal to 75% (net replacement ratio) of your final salary will allow for a comfortable lifestyle in retirement.

These are some of the steps (some drastic) I took to catch up and prepare for a comfortable and confident retirement:

1. **Pay off short-term debt:** I managed to eliminate all my credit-card debt, which typically incurs high interest rates of between 11,75% and 22,5%.
2. **Pay off my home loan:** I am on track to pay off my home loan within the next 3-4 years. This will free up more money for increasing my retirement contributions.
3. **Delay gratification and cut down on leisure activities:** I have postponed international travel since 2019, making significant changes to prioritise my financial goals and retirement plan. I have disciplined myself to direct all bonuses and incentives towards my mortgage and into various unit trusts and investment vehicles to maximise compound interest.
4. **Increase retirement contributions:** I am committed to putting as much money as possible back into my retirement fund and increasing my contributions annually. Saving 17% of your salary is ideal for a 25-year-old.

   Starting later means needing to save more; now, in my late 30's, I aim to save 42% towards my retirement. My goal is to pay off my house and car loans to increase my contributions to 25-30%, helping me retire with confidence.
5. **Utilise a smoothing product:** This product has significantly helped protect me from market volatility, especially during events like the COVID-19 pandemic. A smoothing product reduces the roller-coaster ride of market-linked portfolios, ensuring a smoother return profile and guaranteeing benefit payments upon resignation, retirement, retrenchment, disability, and in the event of death.

In taking these steps, I know I am setting myself up for a more secure and confident retirement and ensuring that my daughter grows up with a strong foundation in financial literacy. Similarly, employers and retirement funds can educate and empower members to make better decisions early on so they can be financially confident when they reach retirement.



Rethinking retirement age to accelerate a better working South Africa



Dirk Oosthuizen
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Simeka
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Much has changed since Chancellor Otto von Bismarck introduced the retirement age of 65 a 140 years ago. With advances in living standards and medical care, people now have more time in their retirement phase than ever before. Does it still make sense for individuals to retire in their early or mid-sixties when they still have so much to offer to their employers and society at large?

An international perspective

Policymakers in much of the developed world are grappling with how their social security systems should deal with the dual problems of an increase in life expectancy and low fertility rates.

- Increased life expectancy results in pensioners living longer and therefore receiving a state pension for longer. To finance this, governments would need to allocate more money to their social security systems, mostly funded by higher taxes on workers.
- Lower fertility rates, however, lead to fewer young workers to pay for the burgeoning cost of state pensions.

With more money projected to be going out, and limited scope for increasing contributions, these governments are looking at other measures, such as increasing retirement ages. Which is easier said than done! In 2023, a series of protests took place in France against government plans to increase retirement age from 62 to 64 years. The calls were for "le droit à la paresse" – the right to laziness. The French government, however, persisted and the retirement age was eventually increased, costing French president Emmanuel Macron considerable support.

"Le droit à la paresse" is a book written by Paul Lafargue, published in 1883. Lafargue, a French Socialist, argued that wage labour was slavery and as machines were taking over the workplace, people should rather work less as machines produced sufficiently.

In South Africa

In South Africa, retirement age is often stated in the rules of a retirement fund, and is part of the employment contract. The most popular retirement age is 65, used by 73% of participating employers in umbrella funds and 65% of standalone funds in our 2024 Benchmark Survey.

Yet, slightly more than half of the retirement funds, 54% of standalone funds and 51% of participating employers in umbrella funds surveyed allow members to continue working beyond their normal retirement age.

Interestingly more than half of funds (60%) and participating employers (66%) surveyed felt that, given the increase in life expectancy, their current normal retirement age was not sufficient to allow members to build up enough retirement savings over their working lifetime to maintain their standard of living in retirement. On the other hand, some felt that creating opportunities for younger individuals in the labour market warrants their current normal retirement age.

Why retire at 65?

The idea of retiring at age 65 is still fairly common around the world. The idea of receiving a state pension was born in the 1880s with German Chancellor Otto von Bismarck. His solution was to introduce a social pension scheme that promised support from the government for older citizens. Initially, 70 was chosen as the retirement age, but this was later lowered to 65.

What do members think?

Most employees surveyed indicated that they anticipate retiring between age 56 and 60, while business owners indicated that they are likely to continue working beyond age 65.

Of the pensioners interviewed in this year's Survey, 54% indicated that they retired at their company's normal retirement age. Only 13% continued to work for their employer beyond this age. However, 26% of pensioners, mostly those who were self-employed prior to retirement and higher-income earners, continued to engage in some type of work beyond their official retirement.

Changing normal retirement age in practice

The dynamics in South African organisations are complex with many divergent pressures, notwithstanding the retirement funding need highlighted above. These pressures may include:

- Transformation (legal and business requirements)
- Retention of scarce skills and experience
- Encouraging the employment of youth
- Employees' ability to continue working beyond a normal retirement age
- Breaks in service and therefore funding for retirement.

With more money projected to be going out, and limited scope for increasing contributions, these governments are looking at other measures, such as increasing retirement ages. Which is easier said than done! In 2023, a series of protests took place in France against government plans to increase retirement age from 62 to 64 years. The calls were for "le droit à la paresse" – the right to laziness. The French government, however, persisted and the retirement age was eventually increased, costing French president Emmanuel Macron considerable support.



The role of sustainable investing in accelerating a better working South Africa



Ashley Daswa
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Sanlam Corporate Investments

Explore how sustainable investing can accelerate the advancement of South Africa. We consider key case studies and highlight the alignment with several United Nations Sustainable Development Goals (UN-SDGs).



Sustainable investing is a critical solution towards shaping a better working South Africa, where every worker, family, and community can thrive in a healthy and financially secure environment. Retirement funds, as asset owners on behalf of their members, play a pivotal role in directing investments towards initiatives that promote environmental sustainability, and social inclusivity, providing robust corporate governance, while still meeting members' long-term return objectives.

Understanding sustainable investing

Sustainable investing involves five approaches, notably **screening, integrating Environmental, Social, and Governance (ESG) factors into investment decisions, thematic investing, stewardship** and **impact investing** eading to long-term sustainable outcomes.

1. **Screening** is a process for determining which investments are or are not permitted in a portfolio.

2. **ESG integration** requires investment managers to incorporate ESG risks and opportunities into their investment processes.
3. **Sustainability themed investing (thematic investing)** involves participating in investments that address environmental and social issues in South Africa.
4. **Stewardship** requires investment managers to engage with investee companies to promote sustainable corporate practices. Stewardship emphasises a long-term perspective, focusing on maximising value not only for the investor but also for the broader community and the environment.
5. **Impact investing** aims to contribute to or catalyse positive effects, e.g. improvements in people's lives and the environment, while achieving a financial return.

By embedding the above stated sustainable investing approaches, retirement funds can contribute to a resilient and inclusive South African economy.

Why sustainability matters

Sustainable investing addresses key economic, social, and environmental problems often overlooked by traditional investments. These issues include:

- **Climate change:** Traditional investments can contribute to excessive greenhouse gas emissions and global warming environmental impact is ignored.
- **Social inequality:** Conventional investments can exacerbate inequality and poor labour conditions by neglecting social impacts.
- **Corporate governance:** Weak governance can lead to unethical practices and mismanagement.

Sustainable investment practices offer several benefits:

1. **Positive social impact:** Impact investments generate financial returns while achieving measurable positive social outcomes. For example, infrastructure projects can boost economic development and job creation by improving trade efficiency and attracting businesses.
2. **Attractive investment opportunities:** In South Africa, sustainable investments address critical social and environmental challenges, such as renewable energy and water conservation, offering appealing investment prospects.
3. **Risk management:** Integrating ESG factors helps investors manage risks related to environmental damage, social unrest, and governance failures, leading to more stable and resilient investment portfolios.
4. **Legislation:** Regulations increasingly require ESG integration in investment management. In South Africa, significant assets under management in retirement funds position the industry to lead in sustainable investment. Regulation 28 of the South African Pension Funds Act and industry codes like CRISA and the King IV Code for Corporate Governance promote sustainable practices. Globally, the United Nations Principles for Responsible Investment (UNPRI) encourage incorporating ESG factors into investment decisions, committing institutions to responsible investing principles.

Sanlam's sustainable investing approach

Asset owners should create sustainable investing frameworks that outline their expectations for asset managers. Such frameworks should consider the selection, appointment, monitoring (SAM) and stewardship perspectives of an asset owner like a retirement fund. Sanlam was the first South African private sector asset owner to become a signatory of the UNPRI in 2012. As such, Sanlam has championed the approach in responsible investing for over a decade and has put in place sustainable investing frameworks detailing requirements for ESG incorporation across various asset classes, and stipulating clear reporting standards for asset managers.



Some case studies highlighting Sanlam's commitment to sustainable investing

Sanlam's retirement fund clients benefit from our activities promoting sustainable investment within various investment portfolios. An example of such portfolios is our smoothed bonus portfolio range. The Smoothed Bonus Responsible Investing Report provides insights into how ESG factors are integrated into Sanlam's smoothed bonus portfolio range. The report highlights Sanlam's commitment to sustainable investing within smoothed bonus portfolios, emphasising ESG integration, thematic investing, stewardship, and impact investing. The document also details Sanlam's commitment to climate action and sustainable investments.

Through these investments, Sanlam is not only fostering economic growth but also building resilient communities where individuals can live and retire comfortably, supported by functional economic and social infrastructure. Some of the notable case studies of sustainable investments funded by Sanlam that accelerate a better working South Africa include the following:

Biomass-to-Energy Project

The Sanlam Investments Sustainable Infrastructure Fund (SIF) invested in a biomass-to-energy project in Umkomaas, KwaZulu-Natal, a joint venture between Alien Fuel Group and Sappi. This initiative supplies renewable energy to Sappi's pulp manufacturing plant, significantly reducing reliance on fossil fuels. It has created 68 full-time and 49 part-time jobs, positively impacting the local community. Environmentally, it mitigates 285 000 tons of CO2 emissions annually by diverting landfill waste and an additional 62 000 tons by replacing fossil fuels, promoting a circular economy. The project aligns with United Nation Sustainable Developmental Goals (UN SDGs) by providing clean energy (SDG 7), creating decent work (SDG 8), and combating climate change (SDG 13).

Cavalier Group

Sanlam Private Equity (SPE) acquired a majority stake in the Cavalier Group, a premium red-meat supplier in Cullinan, Gauteng, significantly benefiting the local community, especially the previously disadvantaged and youth. Employment surged to over 1 800, with 85% from disadvantaged backgrounds and 58% under 35 years old. Economic inclusion improved with black ownership rising to 51,9% and female ownership to 20,5%. This investment supports UN SDGs by reducing poverty through increased employment (SDG 1), promoting gender equality (SDG 5), and fostering decent work and economic growth (SDG 8).

Sanlam Investments Property Impact Fund

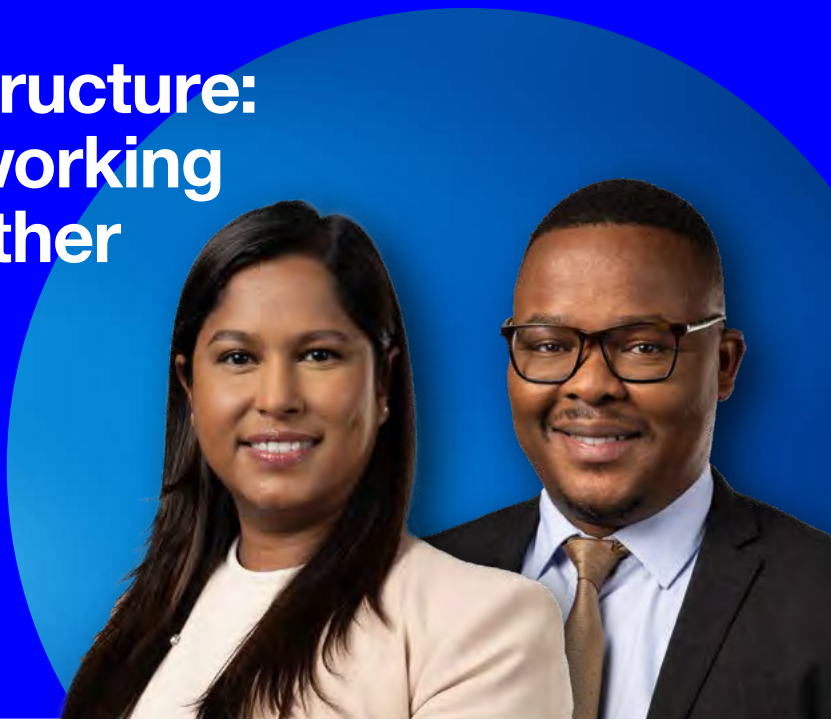
The Sanlam Investments Property Impact Fund aims to develop essential social infrastructure in underserved communities, investing in affordable housing, educational facilities, healthcare services, and retail spaces. The Fund ensures quality living conditions for middle-income families, builds schools and student accommodation, develops clinics and hospitals for accessible healthcare, and establishes retail malls in rural and township areas to boost local economies and job creation. This initiative supports multiple UN SDGs, including good health and well-being (SDG 3), quality education (SDG 4), reduced inequalities (SDG 10), and sustainable cities and communities (SDG 11).

Summary and conclusion

Retirement funds' role in championing sustainable investing is crucial in shaping a prosperous future for South Africa. Aligning the interests of retirement funds, as asset owners, and investment managers in embedding sustainable investing requires a concerted effort towards standardisation, transparency, and active engagement. By adopting comprehensive sustainable investing frameworks, promoting clear communication, and committing to continuous improvement, both parties can navigate the complexities of ESG integration more effectively. This collaborative approach not only enhances the quality of ESG reporting but also drives meaningful progress towards sustainable investment goals.

For retirement fund trustees and asset consultants, understanding and implementing these strategies are crucial. It ensures that sustainable investing considerations are not only a checkbox exercise but a fundamental aspect of the investment process, ultimately leading to better outcomes for beneficiaries and stakeholders alike. By prioritising investments that align with ESG principles, retirement funds can help accelerate the development of a better working South Africa, ensuring that all communities can thrive now and in the future.

Investing in infrastructure: Building a better working South Africa, together



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Simeka Consultants & Actuaries
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Infrastructure plays an important role in economies and human development.

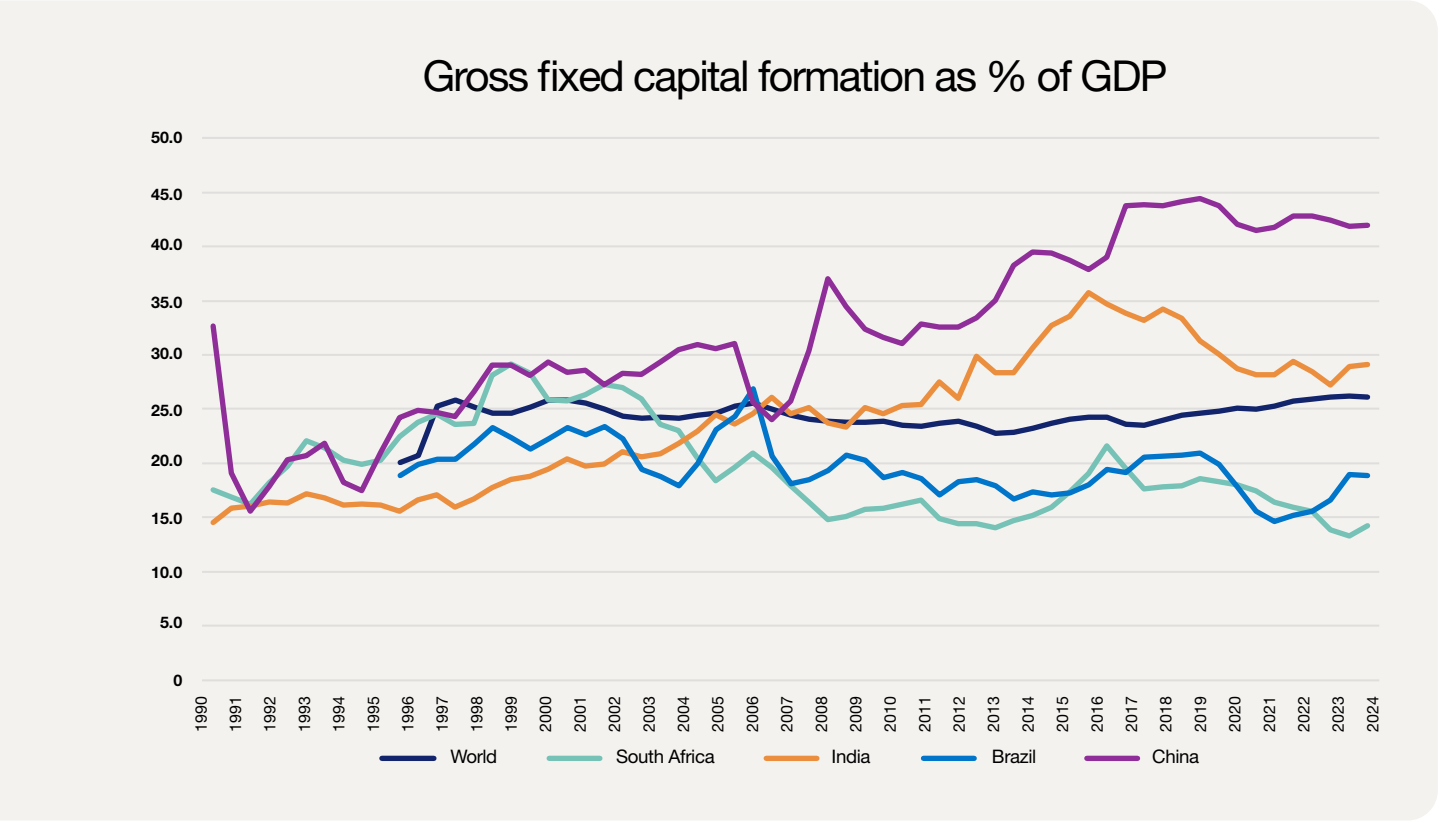


Infrastructure forms the backbone of any thriving economy, encompassing various sectors that contribute to overall development. Some broad forms of infrastructure include:

- **Economic infrastructure** comprises transportation systems, energy supply, and telecommunication networks, essential for economic productivity. Economic infrastructure therefore facilitates trade, commerce, and industry operations.
- **Social infrastructure** comprises facilities that support social services, including healthcare, education, and housing. These are vital for improving the quality of life and social well-being of the population.
- **Green infrastructure** comprises environmentally sustainable projects such as renewable energy installations, waste management systems, and water conservation projects. Green infrastructure therefore aims to reduce negative environmental impact and promote sustainable development.

South Africa's infrastructure is plagued by aging facilities and underinvestment, leading to a deterioration in services. This decline is most apparent in the frequent power outages, water supply issues, and inadequate public and logistics transportation. The consequences of this neglect are far-reaching, impacting economic growth, public health, and overall quality of life. Significant disparities in infrastructure exist between developed and underdeveloped areas. For instance, the limited or non-existent public transportation in underdeveloped regions hinders the population's ability to access basic services and economic opportunities, contributing to high levels of inequality.

When comparing fixed capital formation as a percentage of GDP, a measure of investment in physical assets, South Africa lags its global peers as shown in the graph below.



Source: World Bank national accounts data, and OECD national accounts data files.

Failing infrastructure puts pressure on government

The South African government faces immense pressure to address failing infrastructure. Poor infrastructure disrupts business operations, leading to lower productivity, job losses, and stifled economic growth.

Investment in infrastructure requires funding. However, there is very limited scope for public funding given the current state of public finances and high level of government debt. To address the funding shortfall, the African National Congress (ANC), in its 2019 and 2024 election manifesto, has proposed investigating the introduction of prescribed assets, which would mandate institutional investors such as pension funds to invest a portion of their funds in infrastructure development to boost economic growth.

This approach carries significant risks, including the potential misallocation of resources and negative impact on investment returns for pension funds. Historically, prescribed assets were used between 1958 and 1989 in South Africa but were eventually abolished due to their inefficiency and the burden they placed on investment performance, as shown in the table below. During this period, prescribed assets underperformed equities by 6,4% p.a., 17,2% p.a. and 6,7% p.a. during the 1960s, 1970s and 1980s respectively, representing the opportunity cost experienced by institutional investors during those periods.

	Real returns (%)		Opportunity cost compared to investing in equities (%)
	Equities	Prescribed assets	Real
1960s	8,3	1,9	-6,4
1970s	13,2	-4,0	-17,2
1980s	5,7	-1,0	-6,7

Source: Association for Savings and Investment South Africa (ASISA).



Public-private partnerships (PPPs) in addressing infrastructure deficit

The South African Institute for Civil Engineers (SAICE), one of the institutions that conducted studies into the country's state of infrastructure, has highlighted the deteriorating state of infrastructure in South Africa. Its recommendations included increasing infrastructure maintenance, enhancing institutional capacity through public-private partnerships (PPPs), and raising additional funding in innovative ways.

PPPs have a proven track record in South Africa, with successes in projects like the Lesotho Highlands Water Project, Gautrain Rapid Rail Link, and the Renewable Energy Independent Power Producer Procurement Programme (REIPPP), among others.

The government's role in the PPPs can include the following:

- Direct investment into infrastructure projects, including crowding in private sector investment.
- Creating an enabling environment for private sector investment into infrastructure, including reforming regulations and policies.
- Contributing to building expertise and capacity to effectively manage infrastructure projects from concept to operation.

The private sector can play a complementary role, including providing capital, bringing expertise and innovation, and attracting investments from institutional investors such as pension funds.

The government has undertaken several initiatives to address infrastructure challenges, including among others:

- Operation Vulindlela: A programme aimed at accelerating infrastructure development and reforming critical sectors.
- Sustainable Infrastructure Development Symposium South Africa (SIDSSA): An initiative to promote sustainable infrastructure projects and attract investment.

The role of retirement funds in increasing investment into infrastructure

Regulation 28 of the Pension Funds Act now includes a framework for pension funds to allocate up to 45% of their assets to infrastructure, and further separates private equity and other assets from hedge funds in the limits to promote investment into infrastructure since these investments are often housed in alternative asset classes such as private equity and private debt.

Despite the provisions of Regulation 28, the actual allocation of pension funds to the alternatives asset class remains low, with many funds still heavily weighted towards traditional assets, as shown in the table below. However, there are a growing interest and opportunities in infrastructure as an asset class thanks to its potential for stable, long-term returns. Alternative asset class investments have complex structures requiring specialist expertise and time commitment to thoroughly perform due diligence, i.e. high levels of governance budget. Additionally, the lack of liquidity is also a concern.

Type	Average Balanced Fund	SA Public Pension	US Public Pension Plans	Sovereign Wealth Fund	University Endowment	Family Offices
Example		PIC	California (PERS)	GIC (Singapore)	Yale University	Sample of 121 family offices
Size ($bn)	Various	>160bn	>400	>700	>30	1,6 (average)
Alternatives as a % of total portfolio	**2,8%**	**8%**	**40%**	**30%**	**73%**	**35%**
Private Equity (PE)	0,1%	3%	17%	17%	38%	16%
Private Debt (PD)	-	-	8%	-	-	-
Real assets	-	5%	15%	13%	9%	14%
Natural Resources	0,6%	-	-	-	4%	-
Hedge Funds	0,5%	-	-	-	22%	5%
Other	1,6%	-	-	-	-	-

Source: Alex Forbes Effective Asset Allocation Survey (Best Investment View), Sanlam Corporate, UBS.

Pension fund investment advisers are well positioned to provide guidance on the most appropriate approach to investing into infrastructure. As long-term investors, pension funds can benefit from the additional expected return offered by infrastructure investments due to the illiquid nature of the asset class. Liquidity requirements can be met by holding an appropriate allocation to listed assets in line with the cashflow requirements.

Some of the approaches adopted by pension funds include:

- Direct investment into infrastructure funds, providing diversification across various individual projects. This approach is typically suitable for pension funds with very large assets under management.
- Investing into pooled infrastructure portfolios, allowing for lower investment minimums.
- Investing into multimanaged investment portfolios that, in addition to allocating to traditional asset classes such as equities and bonds, allocate to infrastructure investments.

Building a better working South Africa, together

Significant investments in infrastructure are crucial for South Africa to achieve sustainable and inclusive economic growth. Public-private partnerships and institutional investments are essential in addressing the infrastructure deficit. By fostering an enabling environment and leveraging various investment instruments, South Africa can build a better future and ensure infrastructure development benefits all citizens. Sanlam has been leveraging its experience and skills to identify infrastructure opportunities and incorporate these into investment strategies and portfolios to provide investors with access to this asset class. The company's infrastructure investments aim to support important sectors in the economy and align with its pension fund clients' interests. Sanlam also has standalone infrastructure funds, demonstrating its commitment to innovation and collaboration to ensure financially sound, and socially and environmentally responsible infrastructure investments. Institutional investors, investment managers, and the government have a role to play in achieving this common goal.

Investing offshore: Insights two years post the increase in the offshore investment limit to 45%

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The amendments to Regulation 28 of the Pension Funds Act in 2022 marked a significant regulatory shift, with the South African Reserve Bank raising the permissible offshore allocation for retirement funds from 30% to 45%. This adjustment aligns with the National Treasury's ongoing initiative to modernise South Africa's capital flows management framework.



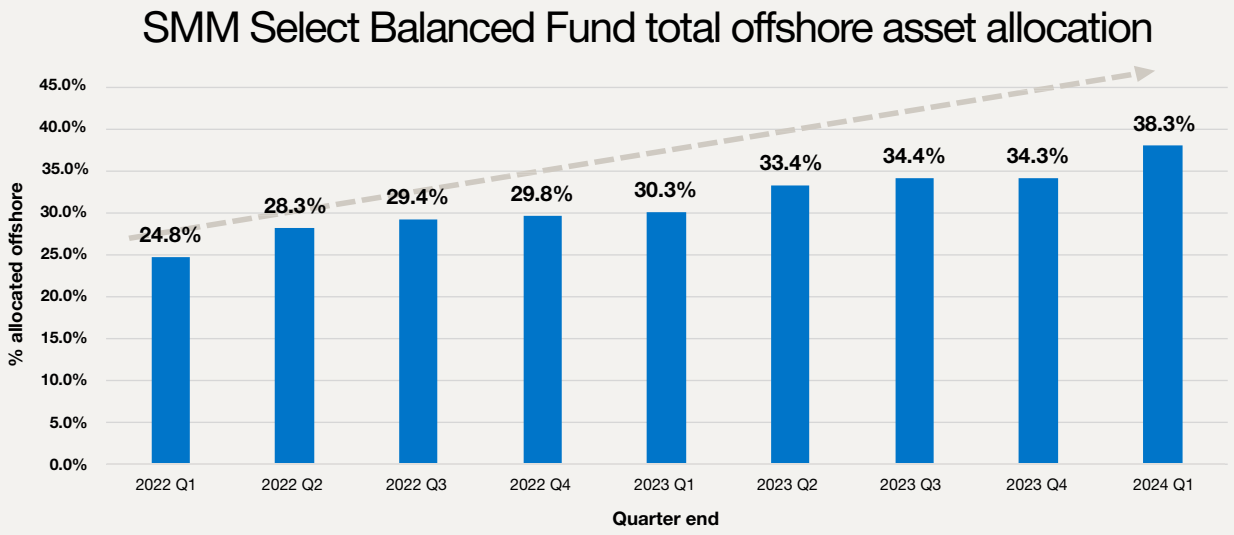
By increasing the offshore allocation limit, the reforms provide greater investment flexibility and enable South African retirement funds to diversify their portfolios internationally.

Portfolio managers have been increasing offshore exposure gradually

In the two years following the regulatory amendments, South African asset managers have gradually increased offshore allocation within the portfolios they manage on behalf of retirement funds. This increase was driven by several key factors, including the risk profile of the portfolios, and the ability to access a much broader range of sectors, industries, and companies globally that are not available on the local market. Investing offshore also provides a hedge against expected inflation, arising from potential rand depreciation.

This increase in offshore allocation reflects portfolio managers' efforts to capitalise on global opportunities and pursue better risk-adjusted returns. The diagram below shows a consistent increase in the Sanlam Multi-Manager (SMM) Select Balanced Fund's total offshore allocation during this period. The portfolio invests in a diversified blend of high-equity balanced portfolios managed by various portfolio managers with asset allocation discretion, including the ability to invest offshore.

Figure 1: Sanlam Multi-Manager (SMM) Select Balanced Fund total offshore allocation from Q1 2022 to Q1 2024

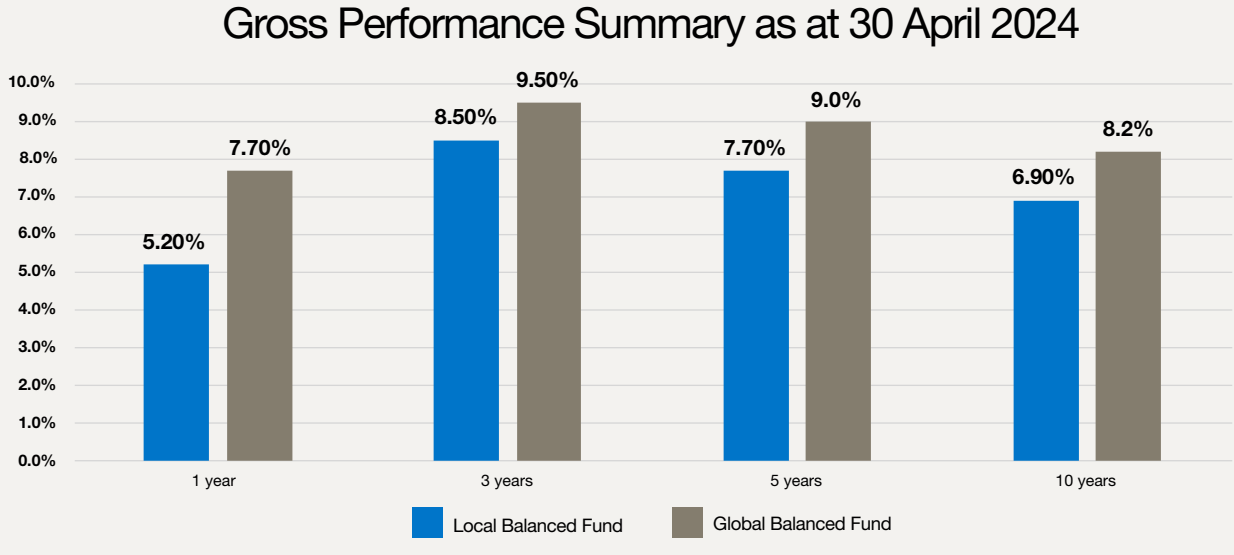


Source: Sanlam Corporate Investments.

Performance of offshore assets plays a significant role in the overall investment performance

Retirement funds allocate investments across various asset classes, including equities, property, bonds, cash, and alternative assets, i.e. they maintain multi-asset portfolios. These can be domiciled in South Africa or offshore. Given the increased offshore investment limit of 45%, the performance of offshore assets significantly impacts the overall investment performance. Figure 2 shows the investment performance difference between local balanced funds (high-equity multi-asset portfolios with no offshore exposure) and global balanced funds (high-equity multi-asset portfolios with allocation to offshore assets). The returns of local balanced funds and global balanced funds shown are the median returns within their respective categories. Portfolios consisting solely of local assets have underperformed those with an allocation to offshore assets, as offshore assets have outperformed local assets over the past decade.

Figure 2: Global vs Local Balanced Funds



Source: Alex Forbes Large Manager Watch Survey.

Performance of local and global equity markets

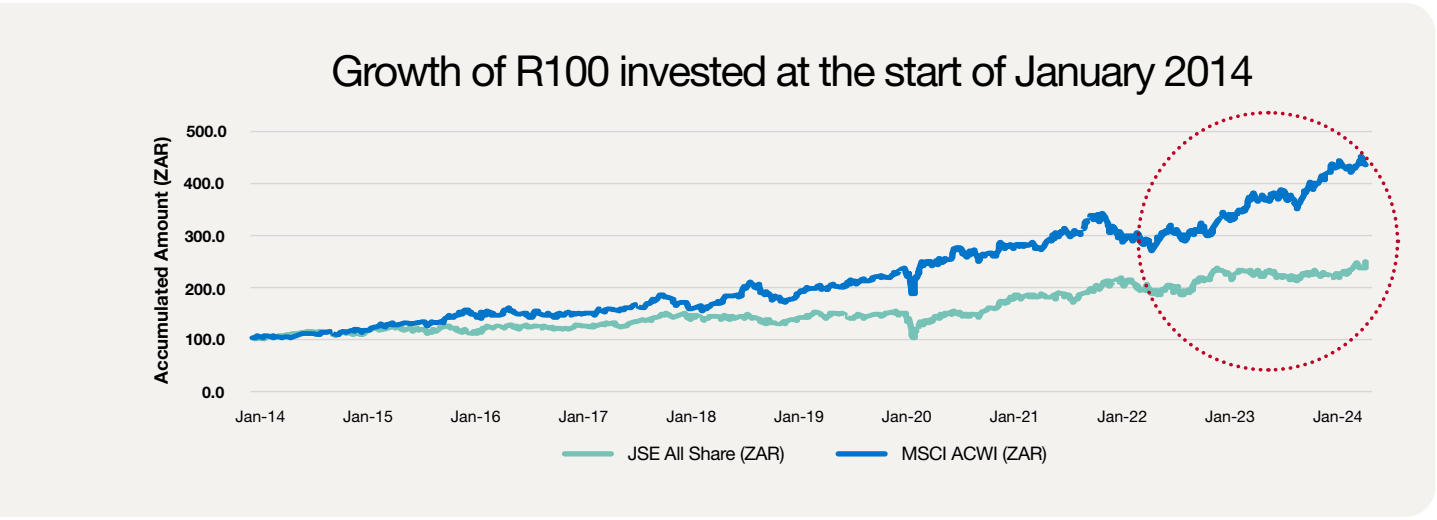
Going forward, the performance of offshore assets is expected to continue to have a significant impact on the overall investment performance. Should offshore assets underperform, those investment portfolios with a higher offshore allocation are expected to underperform, all else remaining the same.

Figure 3 below illustrates how the performance of the JSE All Share Index (representing South African equities) has lagged the performance of the MSCI ACWI (representing offshore equities) over the past ten years. Offshore equities have outperformed South African equities over this period, with the disparity widening notably in 2023. Managers who swiftly increased their offshore allocations have capitalised on this outperformance in offshore assets over the past two years. It is worth noting that it is not an easy task to make the right asset allocation decision.

It is crucial to acknowledge that past investment performance is not an indication of future performance. There were phases where local markets outperformed global markets, for example, in the 20-year period ended September 2023 the JSE ALSI generated a return of 14,5% compared to the MSCI World's 13,4% return in rand terms, underscoring the cyclical nature of investment performance. These dynamics highlight the challenge of consistently selecting top-performing managers, emphasising the importance of diversification in managing risk and enhancing returns.

To mitigate these uncertainties, retirement funds may consider implementing multiple investment managers in their investment strategies or allocate to multi-manager strategies that blend different managers with diverse investment philosophies and perspectives on both local and offshore markets. This approach not only enhances portfolio diversity but also increases the likelihood of capturing opportunities across varied market conditions, thereby strengthening overall portfolio resilience and performance potential.

Figure 3: Cumulative performance of the JSE All Share and MSCI ACWI over the past decade



Source: DSS, Sanlam Corporate Investments

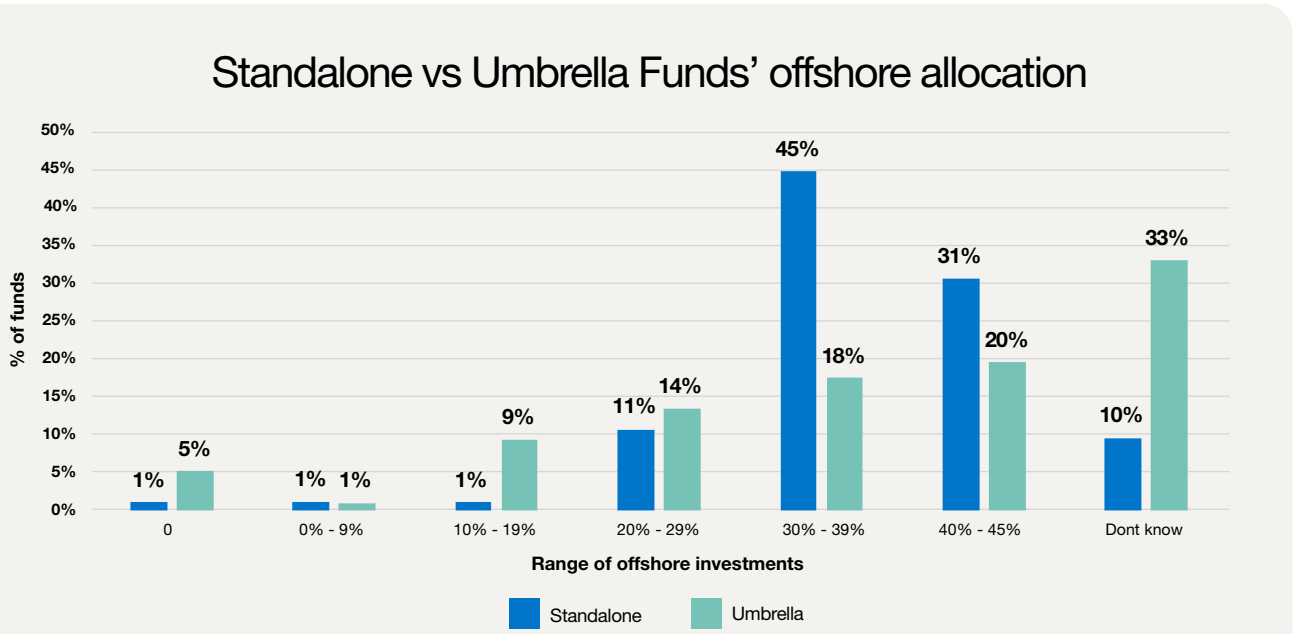


Sanlam Benchmark Survey results

One of the topical areas examined in this year's Benchmark Survey was strategic offshore asset allocation. The aim was to understand how retirement funds are capitalising on the recently increased offshore exposure limit of 45%.

Figure 4 below illustrates the offshore asset allocation for standalone and umbrella funds. The results indicate that 45% of standalone funds allocate between 30% and 39% of their assets offshore, while 31% allocate between 40% and 45% of their assets offshore. Together, 76% of standalone funds have allocated more than 30% to offshore assets, indicating utilisation of the expanded allowance. Thirty-three per cent of umbrella fund participating employers surveyed are unaware of their offshore allocation. This lack of awareness may be attributed to the fact that participating employers use reduced governance budgets offered by umbrella funds as part of the criteria in their consideration to convert to such funds.

Figure 4: Extent of Offshore Investments by Standalone Funds



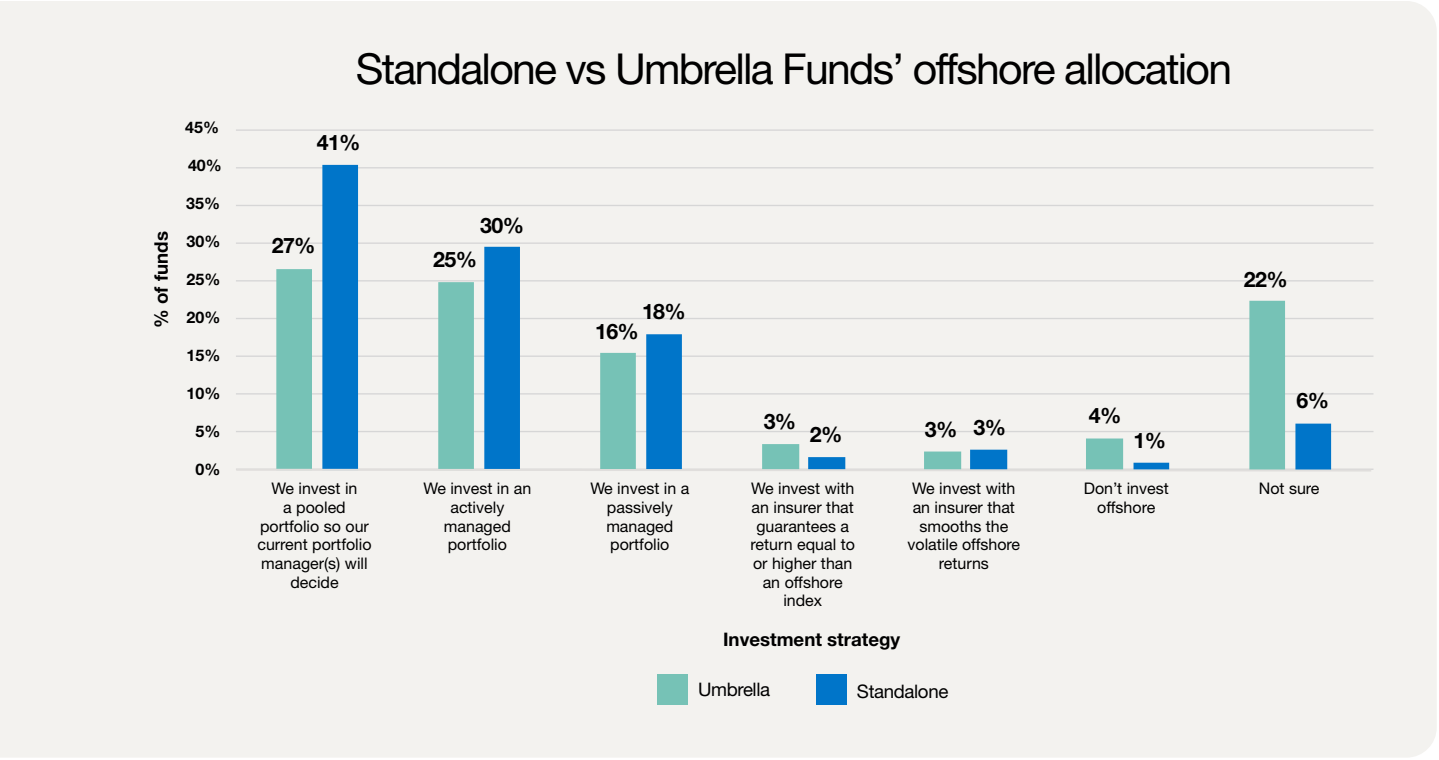
Source: Sanlam Benchmark Standalone & Umbrella Funds surveys in 2024



To navigate the complex landscape of the offshore investment markets, retirement funds may choose to outsource their investment management to investment experts. The Sanlam Benchmark Survey indicates that 41% of the standalone funds and 27% of umbrella fund participating employers have invested in a pooled portfolio where the portfolio manager makes the decision with regard to either active or passive investing. Passive investing, typically through index portfolios or Exchange-Traded Funds (ETFs), offers a cost-effective way to achieve broad market exposure and is supported by Regulation 37 of the Pension Funds Act as a sound starting point. On the other hand, active investing involves selecting individual stocks or assets with the goal of outperforming the market, which could justify higher fees if the additional value generated outweighs the costs.

Retirement funds have various options for offshore investment beyond the traditional active and passive strategies. One alternative is to invest through an insurance company that guarantees returns equal to or higher than an offshore index, known as portable alpha with a guarantee. This strategy leverages structural advantages to transfer outperformance from one asset class to another. Portable alpha strategies come in multiple forms, including a basic version where outperformance relative to the index is not guaranteed but varies with market fluctuations. Other approaches include smoothing returns via an insurance company, resulting in a stable risk-return profile. Approximately 3% of standalone funds and 2% of umbrella funds use portable alpha with guarantees, while 3% of both standalone and umbrella funds smooth offshore returns via an insurance company.

Figure 5: Investment Strategies used by Funds to access Offshore Markets



Source: Sanlam Benchmark Standalone & Umbrella Funds surveys in 2024

The 2022 amendments to Regulation 28 have empowered South African retirement funds with greater investment flexibility, allowing for global diversification opportunities. Over the past two years, increased offshore exposure has yielded higher returns, but the reverse holds true, i.e. underperformance of offshore assets will negatively impact the overall investment performance. Implementing multiple managers or multi-manager strategies can enhance portfolio resilience and cost-efficiency. By combining different investment philosophies and tapping into both local and global markets, funds can better navigate market uncertainties and optimise long-term returns, ensuring robust growth and stability in an evolving financial landscape.



Are compounding fees jeopardising South Africans' financial freedom at retirement?

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Chief Investment Officer
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Head: Business and Market Development
Satrix



In the world of investing, the adverse impact of high fees on long-term returns is well-documented. Just as compound returns work their magic to create wealth over time, compounded high fees have a stunting effect on growth in the long term.

This understanding is crucial, especially in the South African context, where few people can afford to retire comfortably. The cumulative effect of paying lower vs higher fees over time could make a material difference to an individual's retirement outcomes.

Compounding fees and compounding returns

Investors globally are beginning to recognise the critical impact of fees on investment returns. Many, however, still do not fully appreciate how much they pay in fees over a lifetime, often lacking a counterfactual scenario to compare against. Although fees are not the only consideration for investors - sound advice, especially regarding tax matters and asset class decisions, may justify the cost - they should be mindful of not overpaying. If a similar strategy delivers largely similar results, they should be asking the tough questions.

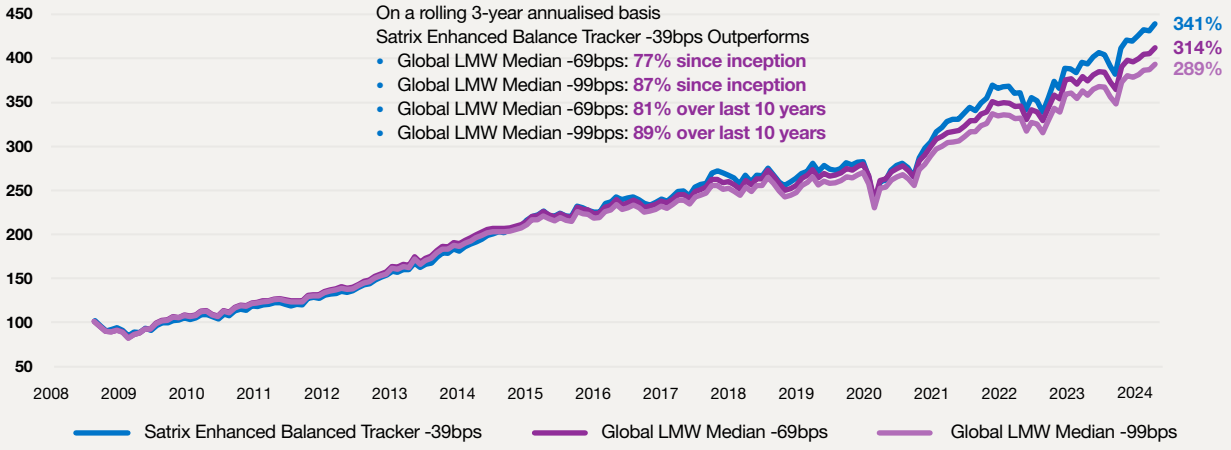
Satrix, a pioneer in rules-based and indexed portfolios, offers a significant advantage over more traditional actively managed balanced funds, with a reduced fee benefit ranging anywhere from 30 to 60 basis points (bps) per annum. This seemingly small difference can compound significantly over time, providing a consistent source of outperformance, or alpha, all else being equal. In addition to this fee advantage, the Satrix Enhanced Balanced Tracker Fund also leverages other sources of alpha, such as Tactical Asset Allocation (TAA) and Portable Alpha strategies. It is this trifactor of low fees, Tactical Asset Allocation and Portable Alpha that makes the magic happen.

The compounding benefit of lower fees is illustrated in the graph below, which shows the net of fee returns on a rolling three-year-annualised basis. It shows a very high degree of

outperformance consistency from the Satrix Enhanced Balanced Tracker Fund versus the Global LMW Median. Over the past 10 years, with the fund achieving significant scale (c. R11.5bn as at 31 May 2024), it has delivered an even higher degree of outperformance consistency.

The compounding benefit of lower fees

Net of fee returns



Source: Satrix & alexforbes as at 31 May 2024.

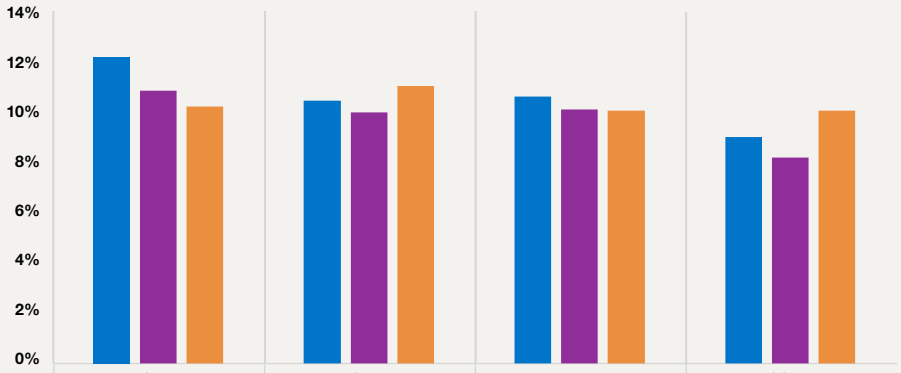
Do the returns justify the fees?

These graphs illustrate that consistently paying higher fees for a traditional actively managed balanced fund may not be justified in terms of the comparative returns over time – even on a gross-of-fees basis. In fact, if you compare the Satrix Enhanced Balanced Tracker Fund with the Global LMW Median, where the latter represents the median performance of a range of actively managed balanced funds, you can see that following an indexed approach has not left members at a disadvantage; on a net-of-fees basis the advantage is even more compelling.

The bottom line? People are potentially paying a significant amount in compounding fees over time, which are not necessarily justified by the results.

Satrix Enhanced Balanced Tracker fund performance

Fund Size: R11.2bn

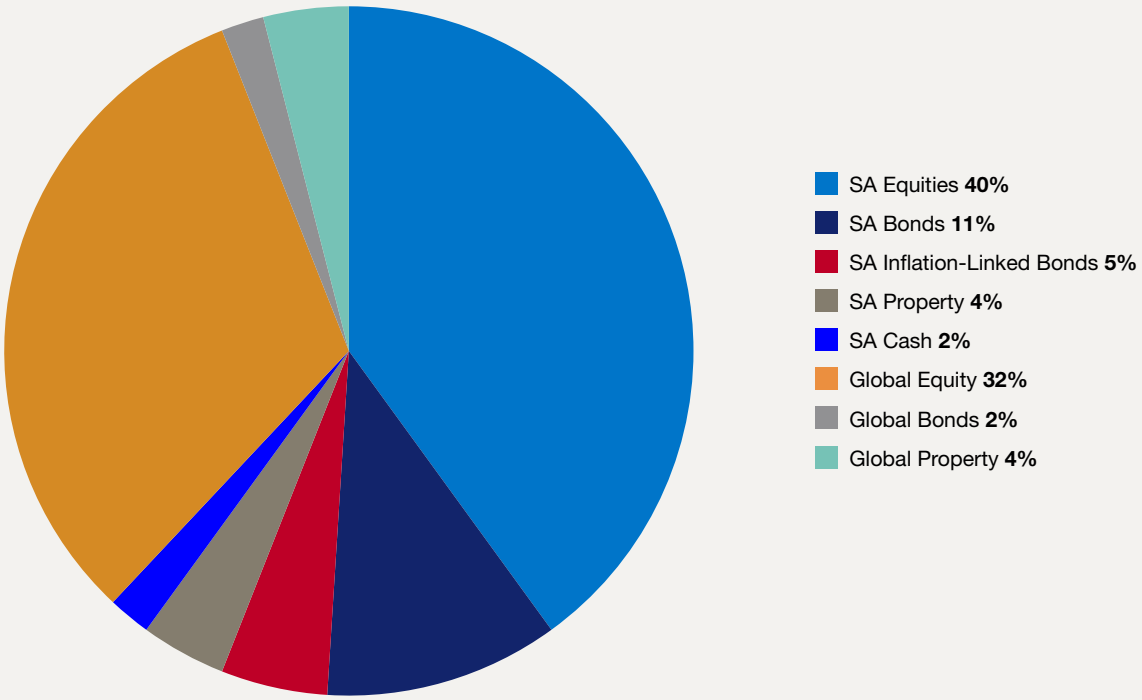


	1-yr	3-yr	5-yr	10-yr
Satrix Enhanced Balanced Tracker	12.16%	10.42%	10.60%	8.99%
Global LMW Median	10.83%	9.95%	10.09%	8.18%
CPI+5%	10.20%	11.01%	10.04%	10.03%

Source: Satrix & alexforbes, gross total returns as at 31 May 2024.

Satrix Enhanced Balanced Tracker

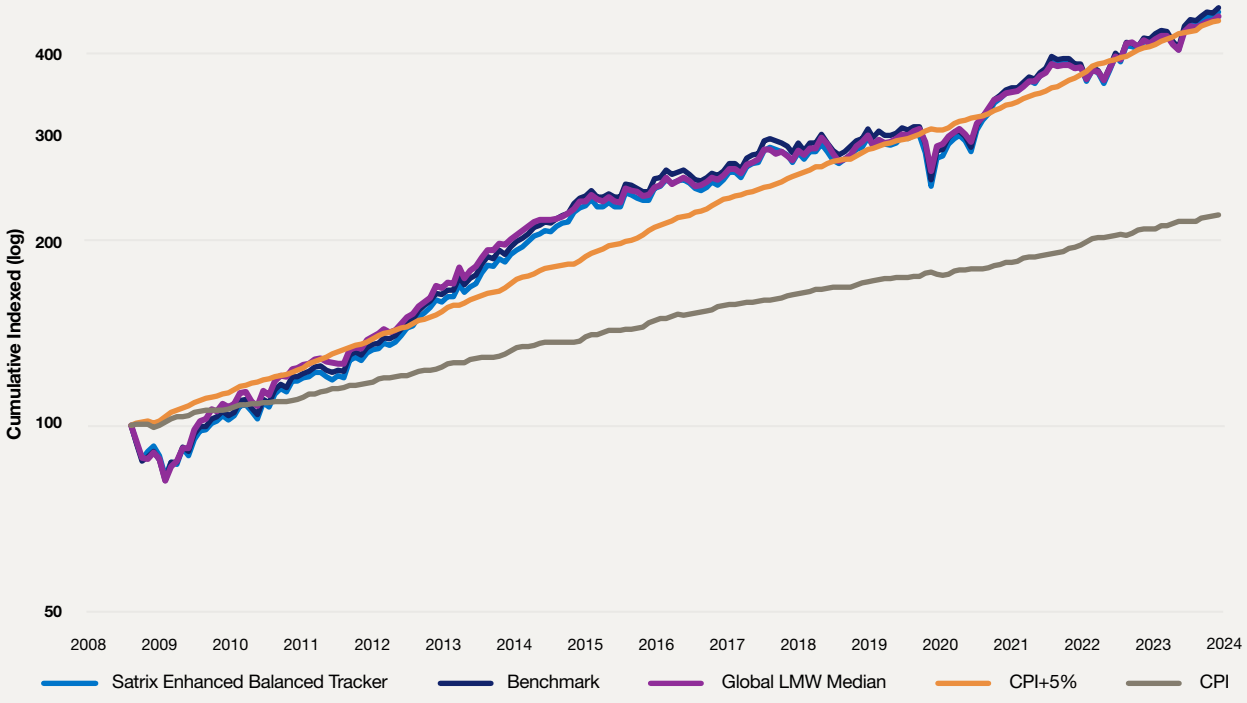
Strategic Asset Allocation



Source: Satrix, effective since 1 February 2023.

Long-term track record of inflation-beating returns

Cumulative returns as at 31 May 2024

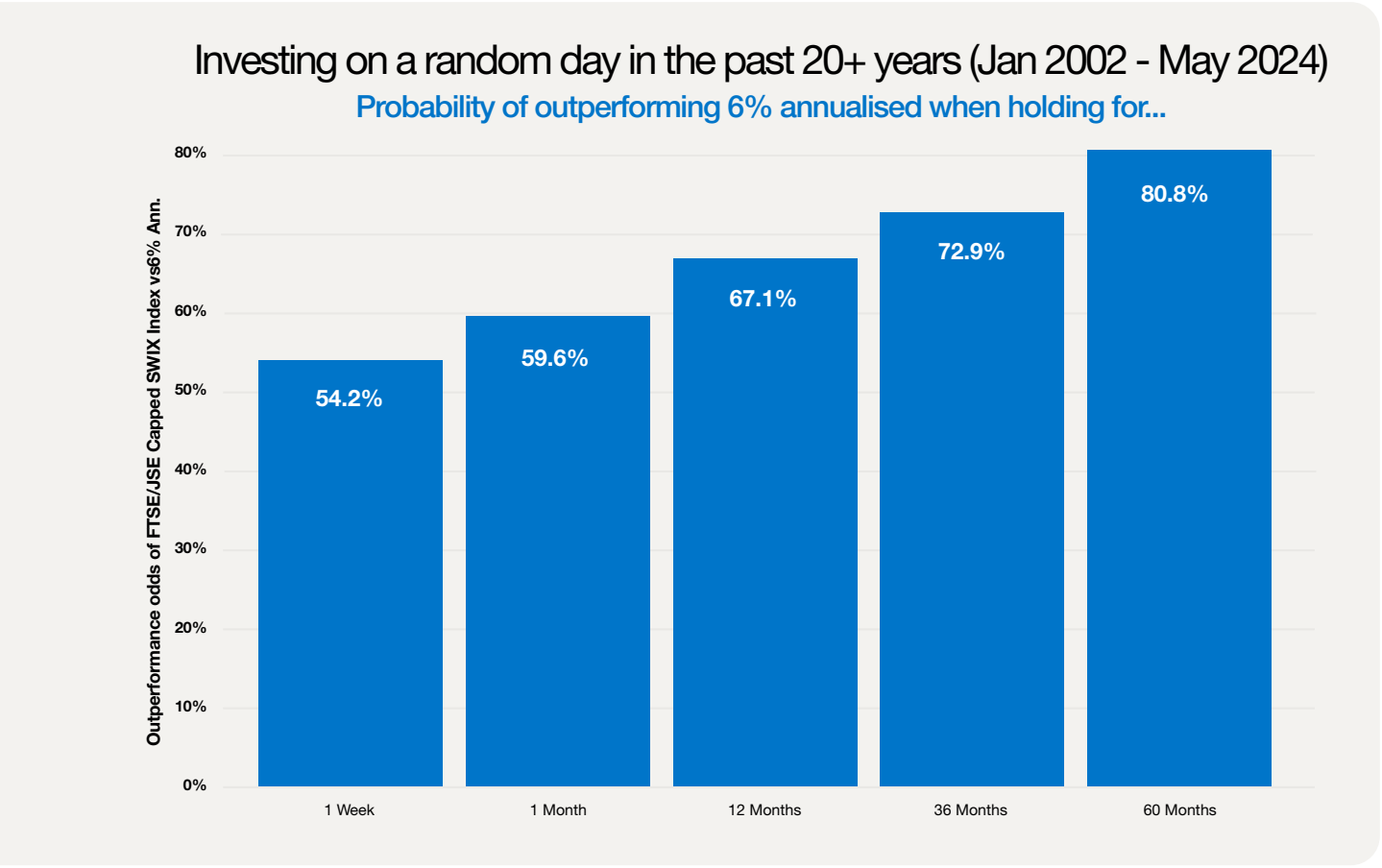


Source: Satrix & alexforbes, gross total returns as at 31 May 2024.

It is always a matter of time

Compounding – the so-called eighth wonder of the world – requires time. Not all compounding is equal; the greatest risk to long-term investment is not taking enough well-rewarded risk. Longer-term horizons (more than five years) mean investors can be less sensitive to taking on well-rewarded risk such as equity exposure. It also gives investors more chance of outperforming inflation.

To illustrate, if you were to have invested R1 000 on any day in the past 20 years into the local FTSE/JSE Capped SWIX Index – the local equity benchmark tracked within the Satrix Enhanced Balanced Tracker Fund – the probability of outperforming long-term inflation (assumed at 6% throughout) increases significantly with the length of the holding period. Clearly, holding investments for longer periods puts the odds firmly in your favour.



Source: Satrix & FTSE/JSE.

It is imperative for South Africans to adopt a longer-term mindset around retirement and the factors that will contribute to successful outcomes – such as preserving rather than withdrawing their savings when possible. Fees are another important – and little talked about aspect – that should be considered. It is critical that clients know what they are paying and how these amounts compound over time.

By understanding the importance of long-term investment horizons and the potentially detrimental effects of high fees, investors can make more informed decisions that align with their financial goals and likelihood of achieving financial freedom in retirement. Satrix is committed to democratising investment and empowering more South Africans to earn robust returns while paying minimal fees to do so.

*Satrix is a division of Sanlam Investment Management.

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For more information, visit https://satrix.co.za/products

Umbrella funds – research overview



David Gluckman
Chairman
Sanlam Umbrella Fund

For the thirteenth year, a distinct analysis of umbrella funds has been done, offering valuable insights into evolving patterns. This year's Survey included 100 employers involved in umbrella funds. It's crucial to acknowledge the presence of survivorship bias, as the selection of employers from year to year may influence the Survey's continuity and outcomes.

Executive Summary

- ### Participating employers surveyed

  In the past year there has been a shift in the sectors in which participating employers are active. Manufacturing and Wholesale/Retail sectors saw a slight decline in participation, while Financial Services doubled its representation to 10%. Agriculture and Professional Services also experienced changes. Overall, there was an increase in average membership and investment in umbrella funds, indicating a trend towards larger employers and a stronger focus on retirement planning. This suggests a positive economic outlook and a move towards more substantial workforce coverage and investment strategies.

- ### Contributions

  The summary of contributions over time indicates a peak in total contributions at 17,3% in 2017, followed by stabilisation around 15%. Death and disability premiums have been stable, while operating costs have decreased slightly, suggesting improved efficiency. The net percentage for retirement provision has declined from 14,2% in 2017 to 12% in 2024, possibly reflecting a more conservative approach to retirement funding or changes in the benefits structure.

- ### Investments

  The Survey shows that while many employers offer investment choice, most members do take advantage of the offer and rely on default options. There is a trend towards more diversified portfolios with increased offshore investments. The data also suggests a shift in pre-retirement portfolio allocation, possibly due to a search for higher returns. The Survey also found that employers prioritise longevity protection and inflation-adjusted income in their annuity strategies.

- ### Insured benefits

  Umbrella funds are a popular way for employers to offer risk benefits to employees, with death benefit, funeral cover, and disability income being the most common options. There's a trend of employers using separate schemes alongside umbrella funds for potentially more customised benefits. The data also suggests a growing focus on ensuring beneficiary nomination.

- ### Employee benefits/Corporate solutions integration

  Companies are increasingly recognising that employee well-being goes beyond just health. Offering combined health and financial wellness programmes can boost productivity and happiness. There's a trend towards financial wellness programmes and advice, while traditional benefits like medical aid have seen a decrease, potentially due to changing preferences or benefit packages.

- ### Two-pot system

  The introduction of the two-pot system in umbrella funds has raised concerns about member savings, system readiness, and cybersecurity. Overall, a successful implementation will require addressing these concerns with better education and stronger security protocols.



Understanding the participating employers surveyed

- ### Sector Analysis

  The majority of the participating employers were active in the following sectors: Manufacturing, accounting for 19% of employers, a slight decrease from 22% in the previous year; Wholesale and Retail, also representing 19%, down from 21% in 2022; Financial Services, which saw a significant increase to 10% from 5%; Agriculture, Forestry or Fishing, comprising 9% of the total, up from 8%; and Professional or Business Services at 7%, a decrease from 9% in 2021.

  Insight

  The data indicates a dynamic shift in the distribution of participating employers across various sectors. The most notable change was observed in the Financial Services sector, which has experienced a 100% increase in the number of employers. This could suggest increased confidence in the financial sector. Conversely, the Manufacturing, Wholesale and Retail, and Professional or Business Services sectors have seen a slight contraction, which may reflect market saturation, competitive pressures, or a pivot towards service-oriented industries.

- ### Membership analysis

  The average membership was 846 (2022: 554), with 48 (2022: 55) of the participating employers having a membership of between 20 and 300. The remaining 52 employers had more than 300 members.

  The average value invested in an umbrella fund by a participating employer was R496 million (2022: R331 million), with 31 (2022: 28) employers having less that R50 million invested.

  Insight

  The data indicates a healthy growth in both membership and investment values within the umbrella funds. The increase in average membership suggests that larger employers are participating, or existing employers are expanding their workforce coverage. The substantial rise in average investment value points to a growing confidence in umbrella funds, possibly reflecting a stronger economic climate or a shift towards more robust retirement planning. The slight increase in employers with smaller investments could suggest a diversification in the size of businesses seeking umbrella fund solutions. Overall, the trends reflect positive developments in the engagement and financial commitment of employers towards employee retirement benefits.

• Contributions

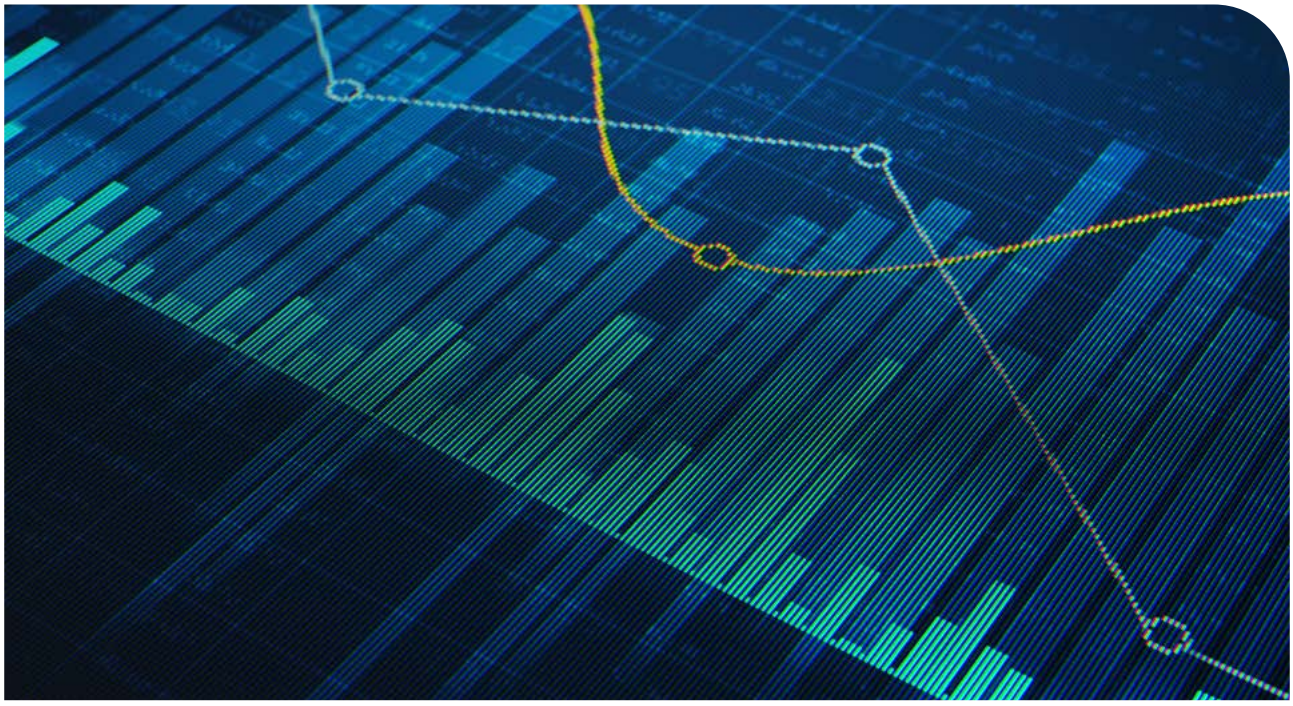
The table below presents a multi-year overview of a company's employee and employer contributions to retirement funds, along with associated costs and provisions.

	2024	2022	2021	2019	2018	2017	2016	2015	2014
Employee contributions	7,1%	6,3%	6,3%	7%	5,5%	7,3%	7,1%	6,4%	5,6%
Employer contributions	8,5%	8,3%	9,4%	9%	8,4%	10%	9,5%	8,8%	8,5%
Total contributions	**15,6%**	**14,6%**	**15,7%**	**16%**	**13,9%**	**17,30%**	**16,60%**	**15,20%**	**14,10%**
Death benefit premiums	(1,6%)	(1,4%)	(1,2%)	(1,3%)	(1,5%)	(1,3%)	(1,3%)	(1,3%)	(1,6%)
Disability benefit premiums	(1,3%)	(1,1%)	(1,1%)	(1%)	(1,1%)	(1,1%)	(1,1%)	(1,2%)	(1,2%)
Operating costs	(0,7%)	(0,6%)	(0,6%)	(0,7%)	(0,6%)	(0,7%)	(0,7%)	(0,8%)	(0,8%)
Total provision for retirement	**12%**	**11,5%**	**12,8%**	**13%**	**10,7%**	**14,2%**	**13,5%**	**11,9%**	**10,5%**

Insight

Over the years, there has been a noticeable fluctuation in both employee and employer contributions, with a peak in total contributions observed in 2017 at 17,3%. The subsequent years show a slight decline, stabilising around the 15% mark. Death and disability benefit premiums have remained relatively stable, with minor variations. Operating costs have decreased slightly over time, indicating potential improvements in efficiency or cost-saving measures. The total provision for retirement, which is the net percentage allocated for retirement after deducting premiums and costs, shows an overall decrease from 14,2% in 2017 to 12% in 2024. This could suggest a trend towards more conservative retirement funding or reflect changes in the employee benefits structure. It is important to consider external economic factors that may influence these figures, such as inflation rates, market performance, and changes in retirement legislation.





• Investments

In the recent Survey, it was observed that 53 employers (compared to 46 in 2022) provided their members with the option to choose their investments. However, this represents a decline from the 65 employers offering this choice in 2019. A notable trend is the emergence of a strategy where the investment options available to an employee are determined by his or her membership category. Under this approach, members within certain categories may not have the freedom to choose their investments, while those from different categories under the same employer do. The adoption of this differentiated strategy has increased, rising from just 3 employers in 2019 to 20 in 2021, and has stabilised around that number, accounting for 18% of employers in 2024.

While a significant number of employers offered their members the option to choose their own investments, it appears that the majority of members, approximately 82% according to the latest data, were invested in the trustee-selected or default investment option. This is a slight decrease from 84% in the previous year.

Insight

This suggests that despite having the freedom to select where contributions are invested, most members either avoid making an investment selection or rely on the expertise of the trustees. This could be due to a variety of reasons, such as trust in the trustees' decisions, a lack of interest or knowledge in investment decision making, or satisfaction with the performance of the default options. Understanding the factors that influence this choice could provide valuable insights for employers and trustees when considering how to engage with members about their investment options.

When asked to describe the investment portfolio of the trustee choice/default portfolios, 74% (2022: 77%) described it as a lifestage strategy as opposed to a single managed portfolio 26% (2022: 23%).

The adjustment in Regulation 28, which now permits up to 45% in offshore investments, is a significant change that aligns with the observed increase in offshore allocations — from 21% in 2022 to 27% in 2024. The investment vehicle most used for offshore exposure is pooled portfolios (32%), which implies that the portfolio managers make the offshore decision.

This shift reflects a strategic move to diversify and potentially capitalise on international markets. Additionally, the trend of companies delisting from the Johannesburg Stock Exchange (JSE) in recent years could be influencing this uptick in offshore investment, as investors/managers seek to maintain robust portfolios amid a changing local market landscape. This regulatory evolution and market response underscore the dynamic nature of investment strategies in the face of global economic trends and local market developments.

• Lifestage investment strategies

A significant portion of respondents (28%) remained uncertain about the alignment of their lifestage model with the trustee-endorsed annuity strategy post-retirement. This figure reflects a decrease from 31% in 2022, but an increase from 18% in 2021.

Insight

The fluctuating levels of uncertainty highlight the need for clearer communication and education regarding retirement strategies. It suggests that trustees may need to take more proactive steps in ensuring retirement planning models are well-understood and effectively integrated with the annuity strategies. This insight points towards a potential gap in the understanding or implementation of these models, which could impact the effectiveness of retirement planning for individuals.

The average period before retirement when the lifestage strategy starts de-risking/switching out of accumulation portfolio was 5,5 years.

The table below presents a portfolio allocation strategy for the final year before retirement, showing a shift in investment preferences over time.

Allocations that best describe the portfolio in the final year before retirement	2024	2022	2021	2019	2018
Conservative risk (<40% equity)	38%	51%	42%	53%	51%
Cash (100%)	34%	29%	31%	38%	28%
Moderate risk (40%-65% equity)	14%	9%	15%	6%	9%
Bonds (100%) (there is a capital guarantee)	14%	7%	12%	17%	4%
Smoothed bonus	11%	18%	11%	11%	13%
Aggressive risk portfolio (66%+ equity)	7%	4%	6%	0%	2%

The data presented indicates a shift in investment strategies over the past few years. The decrease in conservative risk allocations suggests that investors are moving away from lower-risk, equity-based investments, which could imply a search for higher returns. The increase in cash holdings might potentially be driven by higher interest rates. The rise in moderate risk investments indicates a growing appetite for slightly higher risks. The doubling of bonds with a capital guarantee is particularly noteworthy, as it suggests a significant move towards investments that offer protection of the principal sum. However, there has been a decrease in the smoothed bonus category, which could be due to investors seeking more transparent and direct investment options, as smoothed bonus products often involve complex structures. Overall, these trends may reflect a broader reassessment of risk among investors, influenced by economic, political, legislative and market developments.

• Trustee-endorsed annuity strategy

In the Survey, when questioned about differentiating trustee-endorsed annuity strategies across member categories, the majority of employers (65%) reported no differentiation, while 26% utilised demographic profiling based on age and income.

Regarding the key attributes of a trustee-endorsed annuity strategy, employers most frequently cited longevity protection, ensuring income for life (69%), and the ability of the annuity income to track inflation (64%). While 36% valued maintaining pensioners' pre-retirement standard of living for as long as feasible, and 34% prioritised cost-effectiveness, these features were less emphasised.

A significant 94% of subfunds provided retirement advice to members through the fund.

Insight

The data suggests a strong preference among employers for annuity strategies that offer long-term financial security and inflation protection. The emphasis on longevity protection and inflation-aligned income indicates a focus on sustainable retirement benefits. However, the lesser emphasis on maintaining pre-retirement lifestyles and cost-effectiveness could imply a gap in addressing the complete spectrum of retiree needs. The high percentage of subfunds offering advice indicates a proactive approach to member education and support in retirement planning.

• Insured benefits

Most participating employers (79%) provided risk benefits as part of the umbrella fund package (2022: 80%), and 45% (2022: 32%) provided risk benefits by way of a separate scheme. Some employers provided risk benefits as a combination of the umbrella fund package and a separate scheme.

The most popular insured benefits provided as part of the umbrella fund's product package were Death Benefits (99%), Funeral Cover (76%) and Disability Income Benefits (73%).

Insight

The data indicates a growing trend towards diversification in the provision of risk benefits, with an increasing number of employers leveraging separate schemes alongside traditional umbrella fund packages. This shift may suggest a desire for more tailored benefit solutions that can better meet the specific needs of employees.

The table presents a comparison of various benefits across different years.

Benefit	2024	2022	2021	2019
Approved Death Benefit	3	3,1	3	3,1
Unapproved Death Benefit	3,5	3,5	3,5	3,1
Lump-sum Disability Benefit	2,4	2,3	2,3	2,8
Income Disability Benefit (replacement ratio)	74,8%	76,3%	76,3%	77,5%

The Death Benefits have remained relatively stable throughout, suggesting consistent policy terms or conditions. The Income Disability Benefit shows a gradual decrease in the replacement ratio, which might suggest an adjustment in the benefit structures.

Flexible risk benefits were offered by 22% in 2024 as opposed to 29% in 2022. The average level of Funeral cover provided amounted to R26 323.

Nomination forms were put in place for 98% (2022: 88%) of employees in respect of unapproved group life and funeral benefits.

The increase in nomination forms indicates a heightened focus on formalising the allocation of benefits, ensuring that employees' preferences are recorded and respected. This could reflect a response to regulatory changes or a greater awareness of the importance of clear beneficiary designation in employee welfare strategies.

A significant majority of employers (98%) complied with the Policyholder Protection Rules (PPR) by furnishing the contact information of their employees to insurers. However, a smaller proportion (72%) permitted insurers to directly engage with employees on issues concerning their risk benefits. This discrepancy may suggest a cautious approach by employers towards direct communication between insurers and employees, potentially to safeguard employee privacy or to maintain control over the flow of information. It is important for employers to balance regulatory compliance with the protection of employee data, while also facilitating the necessary communication for the management of risk benefits.



• Employee benefits/Corporate solutions integration

A comprehensive approach to enhancing employee productivity involves the implementation of both health and financial wellness initiatives. Fifty three per cent (2022: 53%) believed a holistic integrated health and financial wellness programme delivered higher productivity and staff happiness. Fourteen per cent (2022: 10%) indicated that they have integrated some programmes but managed others independently, and 21% (2022: 21%) did not take responsibility for an employee's health but adhered to legal requirements in this regard.

Insight

The data reflects a progressive understanding among organisations that employee well-being is multifaceted, requiring a blend of health and financial support to foster a productive and content workforce. The shift towards integrated wellness programmes underscores the importance of a supportive work environment as a key factor in achieving higher levels of productivity and employee morale. As companies continue to evolve these programmes, they may find that the benefits extend beyond immediate productivity gains, potentially leading to long-term loyalty and reduced turnover.

The table below presents a comparative analysis of the ideal suite of benefits and services that should be offered, according to participants, in 2024 versus 2022:

Benefits and Services	2024	2022	2017
Retirement fund	99%	100%	100%
Group risk	89%	94%	76%
Medical aid	77%	93%	82%
Financial wellness programmes	72%	72%	41%
Financial advice	72%	56%	
Debt counselling	42%	44%	
Estate planning and wills	58%	40%	
Rewards programmes	22%	29%	18%

A notable trend is the decrease in the percentage for several services. The retirement fund participation has decreased slightly by 1%, which might indicate a stable interest in retirement savings. Group risk and medical aid have seen significant drops, by 5% and 16% respectively, which could suggest changes in employment benefits packages or shifts in employee preferences. Financial wellness programmes and financial advice have maintained or increased their uptake, with financial advice showing a substantial increase of 16%, possibly reflecting a growing awareness of financial planning importance. Debt counselling has seen a marginal increase. Estate planning and wills have seen a substantial increase from 40% to 58%, which may indicate a rising need for this service. Lastly, rewards programmes have experienced a 7% decrease, which could point to a lesser emphasis on such incentives or a change in their perceived value among beneficiaries.



- ## Two-pot system

The upcoming implementation of the two-pot system within umbrella funds is a significant change, prompting a series of pertinent questions. Concerns about readiness are at the forefront, with the necessity to evaluate the fund's preparedness for this transition. Identifying the primary risks associated with the two-pot system is crucial, as is the development of effective member education strategies to ensure a smooth implementation. Additionally, the threat of cyber risk cannot be overlooked, particularly in the light of new regulations.

Nearly half of the surveyed individuals expressed little to no concern regarding the umbrella fund's capability to implement the two-pot system, while the remainder showed varying levels of apprehension. The primary concerns highlighted were the potential negative effects on members' retirement savings, with 73% fearing reduced savings, followed by concerns about system readiness at 37%, and an increase in inquiries at 33%. To address these issues, subfunds have planned educational strategies such as information sessions (67%), email updates (66%), online learning platforms (21%), and video content (17%).

The perceived risk of cyberthreats in the context of the two-pot system remains high, with 71% of participants in 2024 – a slight decrease from 78% in the previous year – reporting moderate to severe concerns. In terms of cybersecurity measures, when selecting an administrator, 28% of respondents in 2024 (up from 26% in 2022) reported receiving a cybersecurity policy from potential administrators, and 21% (down from 25% in 2022) performed due diligence on-site. However, it is worrying that nearly two fifths (39%; up from 33% the year before)) do not include this in their evaluation process.

Insight

The data shows that a significant portion of participants are not integrating cybersecurity assessments into their administrative selection process, which could leave them vulnerable to cyberthreats. This oversight, coupled with the concerns about the impact on retirement savings and system preparedness, suggests a need for more comprehensive education and robust security protocols to ensure the successful implementation of the two-pot system and to safeguard members' interests.



Managing defined-benefit members' expectations when accessing their savings pot



Ryan Campbell-Harris
Consulting Actuary
Simeka

With the two-pot retirement system changes to the retirement industry legislation imminent (implementation date is 1 September 2024), there is little doubt that this is the next biggest transformation to sweep over the retirement industry since the introduction of umbrella funds or the conversion of retirement funds from defined-benefit (DB) to defined-contribution (DC) funds.

For those who are not familiar with the new two-pot retirement system legislation, once implemented, the following changes will occur (ignoring certain exceptions defined in the legislation):

- Any retirement savings a member has saved up until 1 September 2024, along with the rights applicable to those savings, will be preserved in a vested pot.
- After 1 September 2024, members' future contributions to retirement savings will all be split 1/3 to a savings pot and 2/3 to a retirement pot.
- Even though the savings pot is intended to be available as a lump sum at retirement, members will be allowed to access up to 100% of their savings pot once per year before retirement (subject to a minimum withdrawal amount, which is currently R2 000).
- Members will be forced to preserve their retirement pot until retirement. It will then need to be used to purchase a pension either from an insurer or from the fund to which they belong (if allowed).
- Should a member decide to access his/her savings pot before retirement, the withdrawal transaction will be treated as additional income for the year and taxed at the member's marginal income tax rate.
- All administration costs of the withdrawal transaction will be deducted from the savings withdrawal benefit.

At its core, the two-pot retirement system has two benefits for those individuals saving for retirement – the one is the fact that a member will be able to access some of his/ her retirement savings before retirement, without having to leave employment (a current pitfall in the retirement funds industry), and the other is the fact that a large part of the member's future retirement savings will be preserved until retirement (something that has been lacking in the industry for many years).



Administration changes required for accessing a savings pot

Although there are significant changes required by administrators to implement the new legislation, administering a withdrawal from a member's savings pot will be relatively easy in a DC fund, as the withdrawal amount will simply be deducted from the available capital in the member's savings pot. After the administration costs for the withdrawal transaction and tax have been deducted from the withdrawal amount, the net benefit will be paid to the member.

For a DB fund, however, the administration of the accumulation of and a withdrawal from the savings pot will be more complex given that a member's withdrawal benefit will first have to be calculated by an actuary. Furthermore, a member's withdrawal benefit is related to the number of years of service as opposed to the amount of contributions made.

The savings pot and retirement pot will have different pensionable service dates on the two-pot retirement system implementation date, and additional service the member accrues will be allocated 1/3 and 2/3, similar to how the DC member's contributions will be split.

Therefore, unlike a DC fund where the administrator merely needs to track the size of each pot, the DB fund administrator will need to keep a record of the different pensionable service dates of each pot, which will change based on the number of months since the implementation and the number of withdrawals the member makes.

Calculating the size of a member's savings pot

As implied above, the size of a member's savings pot in a DC fund will be the sum of all the 1/3 contributions made per month, plus the investment return on these contributions, less any historical withdrawals already made. This balance in this account can therefore easily be made available to the member, who can withdraw the full amount at any point, provided that he/she has not made a withdrawal in the current tax year.

To calculate the size of a DB member's savings pot, the actuarial reserve value (ARV) will be calculated as usual, based on the fund's rules, using the member's total pensionable service. This ARV will then be split in proportion to the member's pensionable service date of each pot at the time of the withdrawal.

A member will then be able to decide how much of the savings pot he/she wants to withdraw, and either the actuary of the fund or the administrator will need to calculate by how much the service date of the savings pot and the total service will need to be adjusted after the withdrawal is processed, so that the adjusted ARV value can be calculated in the future.

Cost of making a withdrawal from a savings pot

The legislation states that all tax and administration fees may need to be deducted from the withdrawal benefit, which is why a minimum withdrawal amount of R2 000 is stipulated. In a DC environment, if we assume the following:

- Member withdrawal amount: R10 000
- Marginal tax rate: 31%
- Transaction fee: R200
- Costs are deducted before tax is applied for

the net benefit to this member would be R6 762 (R10 000-R200)*(1-0.31).

Note that costs are usually deducted first from any benefits before tax is applied for, and for the purpose of the illustrations in this article, we are assuming that the same principle will continue to apply.

In the DB environment, the same tax and cost would apply as above; however, there would be an additional cost for the calculation of the member's ARV and revised pensionable service date, which would need to be considered. These withdrawal calculations would take up approximately 1 hour of an actuary's time, which could result in costs of up to R5 000 per withdrawal request.

Hence, in the above example, a DB member withdrawing R10 000 would only be paid a net benefit of R3 312 (R10 000-R200-R5 000) x (1-0.31).

In addition to the monetary costs, one can also consider the time it takes for a withdrawal benefit to be processed. Barring the initial inception period, in the DC environment this process is expected to be not much longer than the time the administrator currently takes to process a normal fund withdrawal.

The time it takes to process the DB withdrawal would be significantly longer given the involvement of an actuary to determine the value of the withdrawal benefit.



Managing member expectations

One of the key principles of the Treating Customers Fairly framework is managing members' expectations. Given that members will gain access to part of their retirement savings when the two-pot retirement system is implemented, it stands to reason that expectations will be created as to how much a member can withdraw from his/her savings pot and how long it would take to access his/her savings.

Clear communication is key, especially when it comes to explaining the difference between what the member requests as a withdrawal amount and the actual benefit that he/she will receive. This is even more prevalent with defined-benefit members, given the extra costs and time involved in determining their withdrawal benefit amounts.

If the current methodology of determining a DB member's withdrawal benefit is maintained, it will be very difficult to explain to a member of a DB fund, why his/her net savings withdrawal benefit is so much smaller and takes so much longer to process, than that of a member of a DC fund, when both withdrawal requests amounts are the same.

A possible solution to managing costs of withdrawals in a DB fund

In the withdrawal example shown above, it is evident that the main difference between a DB and a DC net withdrawal amount, from a member's perspective, is the additional cost of the actuary's time to perform each calculation. If one could remove this cost, a DB and DC withdrawal transaction could be processed on a very similar basis, thereby treating both members more fairly.

Our suggestion for removing the actuarial cost per withdrawal would be a one-off cost to a DB fund per triennial valuation, where the fund's actuary would produce a table (or several tables) of withdrawal factors for each member group (example per gender and age) to determine the cost of one day's service in the fund for each member group, based on the latest statutory valuation's assumptions.

The administrator could use these tables to look up the factor based on which member is requesting the withdrawal, and then determine the size of the savings pot the member has access to by multiplying the number of service days in the savings pot by the looked-up factor. The administrator could then also tell the member by how much the pensionable service date of the savings pot and total service would need to be adjusted, given the size of the withdrawal that is requested, by dividing the amount of the withdrawal by the cost of one day's service.

In doing this, an actuary does not need to be involved in each withdrawal request, thereby removing the additional cost per quote for each withdrawal and improving the turnaround time of the withdrawal payments. The fund would only need to cover the one-off cost of the actuary determining the factor tables at each valuation.



Conclusion

Although the majority of the defined-benefit funds in South Africa have already converted to defined-contribution funds, there are still several actively operated defined-benefit funds in South Africa, and the future legislative changes are going to make administering these funds significantly more complex and costly. Boards of management of these funds will need to consider the changes and costs carefully, to properly and fairly manage the expectations of their members.



Healthcare

The South African healthcare system



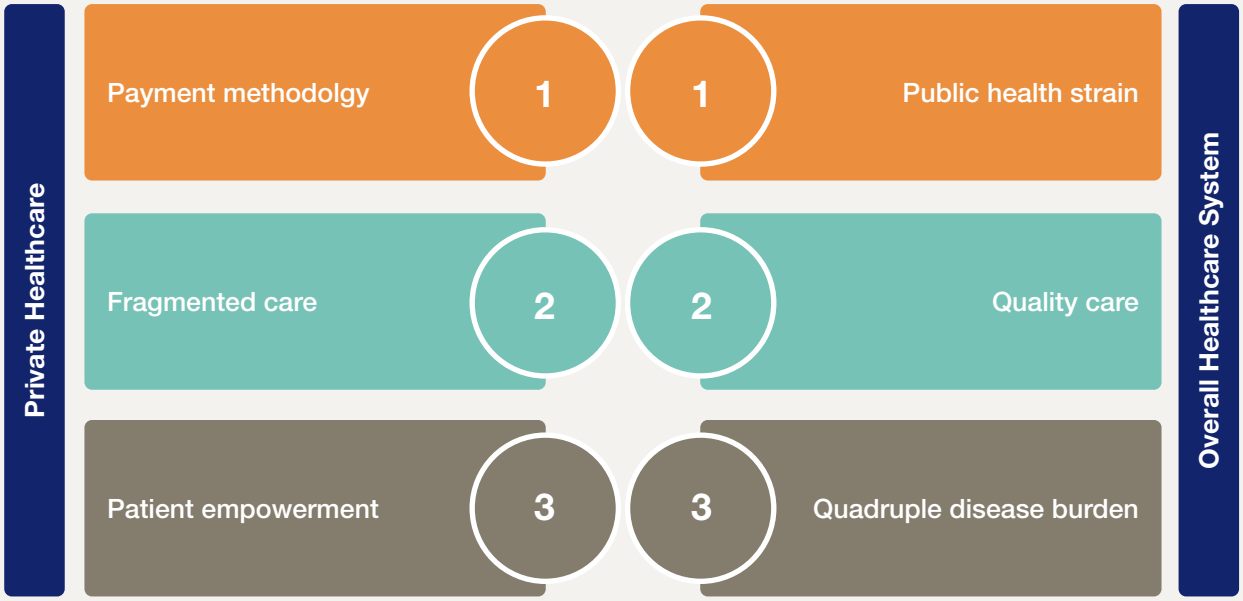
Gerald van Wyk
CEO
AfroCentric Group

South Africa's healthcare system is characterised by a dual structure, where public and private sectors co-exist, catering to different segments of the population. The public sector, funded by the state, serves 71% of the population, while the private sector, funded through individual contributions, serves 27% (Russell, UCT, 2021).



There are significant disparities in these two systems; those who receive healthcare in the private sector experience services aligned with world-class levels. In contrast, those who utilise the public systems experience inadequate access to quality healthcare.

Understanding the duality in the healthcare system provides essential context for recognising the challenges we face in order to identify the opportunities that can be mined within those challenges, both from a private and public sector perspective.



In our assessment, three fundamental issues plague our private healthcare system and contribute to its long-term unsustainability.

1. Payment methodology: the way we pay for healthcare services. Fee for services (FFS) has many issues, including driving overutilisation of healthcare services and prioritising volume over value.
2. Fragmented care: Fee for service encourages providers to focus on their own services or inwardly rather than coordinate care with other providers, leading to fragmented care.
3. Patient empowerment: Patients lack access to their healthcare data, relegating them to a passive role in their own healthcare management. This contributes to medical inflation consistently trending above CPI, making private healthcare less affordable over time for an average South African. This is evident in the proportion of the South African population covered by medical schemes decreasing from 16% in 2000 to 14,78% in 2020.

This makes private healthcare increasingly unaffordable, pushing more people to rely on the public sector and further burdening it. Consequently, the proportion of the population covered by medical schemes is slightly reduced by slow economic development, exacerbating the strain on the public healthcare system.



Collectively speaking, South Africa's healthcare system is confronted with a quadruple disease burden, which poses significant challenges to the country's health and well-being. This burden is characterised by the high prevalence of chronic diseases, such as diabetes, hypertension, and cardiovascular disease, which exact a heavy toll on the population.

Compounding this issue is the persistent threat of infectious diseases, including HIV/AIDS and tuberculosis, which continue to ravage communities and strain healthcare resources.

The country is grappling with the devastating consequences of violence and injury, including interpersonal violence, road accidents, and traumatic injuries, which result in unnecessary morbidity and mortality.

Lastly, newborn and child health issues, such as infant mortality, malnutrition, and vaccine-preventable diseases, remain a pressing concern, perpetuating cycles of poverty and disadvantage.

The quadruple disease burden not only exacts a significant economic toll but also diminishes people's quality of life.

A significant segment of the population grappling with these challenges relies on the public sector, highlighting the critical need for a comprehensive and multifaceted strategy to tackle these overlapping health issues.

Compounding the challenges for the public sector are high patient volumes, prolonged wait times, and infrastructure issues like aging facilities and inadequate maintenance.

Against this backdrop, the National Health Insurance (NHI) has been in development since 1994 and has now been legislated. It aims to rectify disparities in healthcare access, quality, and affordability – a noble intention that has, however, suffered from neglect in its implementation approach.



AfroCentric fully supports the principles of Universal Healthcare coverage. We believe it is the right principle for South Africa to strive towards, especially given the disparities in the current two parent systems: private and public healthcare. The current systems are unsustainable and system that works for all is long overdue.

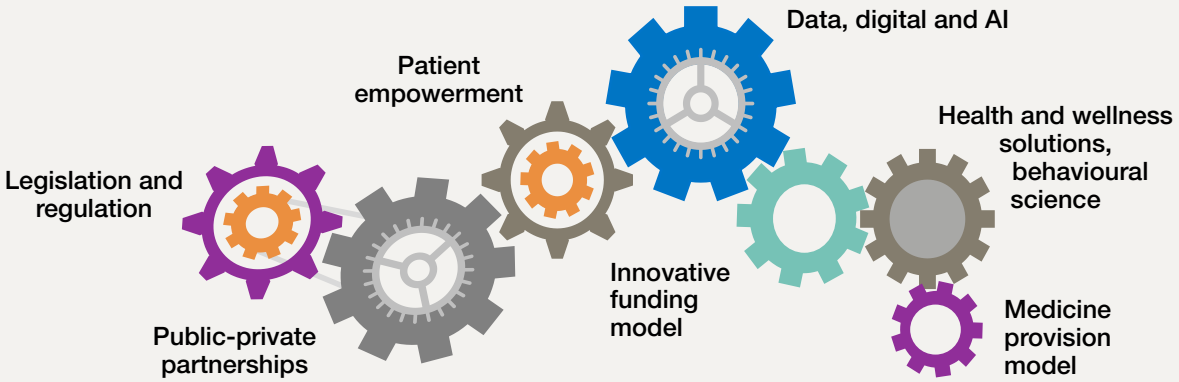
The proposed NHI in South Africa faces several contentious issues, including the adoption of a single-fund model and unprecedented power in the hands of the Health Minister, raising concerns about accountability and transparency.

Furthermore, the NHI limits individuals' freedom of choice, forcing them to rely on a single, state-controlled system. This means any mismanagement and maladministration of this Fund will affect the health of all South Africans and other beneficiaries without access to alternatives.

The role of medical schemes is uncertain after the full implementation of NHI. According to the NHI Act, medical schemes can cover only complementary medical services, those not covered by the NHI Fund.

However, the healthcare services covered by the NHI Act have not yet been defined, leaving medical schemes unclear about their future role in the system. Additionally, the non-clarity on the scope of benefits and the source of funding for NHI is sparking fears about the financial sustainability and effectiveness of the programme. Government has also given no comfort given the lack of any implementation plans or detailed roadmap to achieve its planned full implementation timelines. Then the question is, what next?

We believe constructive engagement is crucial. AfroCentric is actively working with trade bodies on legal strategies and engaging with stakeholders to manage the anxiety caused by the passing of the Act. We are committed to influencing necessary amendments and shaping the implementation process to ensure a sustainable system that serves all South Africans.



This marks a pivotal moment in the healthcare sector. It has become undeniably clear that the issues and gaps within our current system require not only our attention, but also our immediate and impactful action. Our current healthcare system has been facing sustainability challenges for quite some time, and we have now reached a juncture where change is imperative. The question is: What needs to change, and how do we progress? These questions will prompt us to delve deeper, innovate, and collaborate in ways that we have not fully explored. No quick-fix solution or single answer can resolve the challenges and complexities we face in healthcare today. We believe it will be a combination of many elements, including, but not limited to:

- Enabling regulations and legislations
- Public-private partnerships
- Patient empowerment
- Innovative funding models
- Leveraging data, digital and artificial intelligence solutions
- Innovative and cost-effective medicine provision models
- Preventive care.

All the above should be centred on providing the best value to each individual, putting the individual at the centre of it all.

At AfroCentric, we do not just dream of a better future for healthcare; we are actively shaping it, step by step, through our suite of products tailored to address these challenges. However, we recognise that we cannot achieve this alone. The way forward involves collaboration, a shared vision, and collective efforts.

Healthcare 2034 – building a resilient healthcare ecosystem



Dr Mike Marshall
Executive Manager: Research & Product Development
Medscheme

The healthcare sector is currently under enormous pressure worldwide owing to a number of factors. These include inter alia, a growing global population, a shortage of healthcare professionals, and a rise in lifestyle diseases. The resilience of healthcare systems was also tested during the COVID-19 pandemic.



On the one hand it has allowed for innovation and technology and we need to embed these positive changes. On the other hand it has exposed weaknesses, particularly inequalities of race, gender and age, and supply chain issues.

In order to address these weaknesses, a new vision for healthcare is needed. Creating this vision will require reviewing the current megatrends and deciding on the key strategic pillars that will underpin the futuristic healthcare delivery model, which will need to be more inclusive and have a broader focus. The barriers to implementation and the solutions to those barriers will also have to be determined.

Key megatrends

Widening global health disparities

At least half of the world's population cannot obtain essential health services. Private healthcare is exclusive and expensive. Each year large numbers of households are being pushed into poverty because they must pay for healthcare out of their own pocket (WHO data). COVID exposed these inequalities further, particularly in lower- and middle-income countries, where healthcare infrastructure is often lacking. Strategies to democratise healthcare are needed and digital technology will play a key role.

Healthcare worker shortages and burnout

In the South African context health care professionals have been challenged on many fronts. We have seen the South African Medical Association raise concerns regarding the "criminalization of doctors" when there are allegations of malpractice. We have seen rising costs of malpractice insurance with some disciplines paying over R1 million per annum. There is rising uncertainty around role of Artificial Intelligence in healthcare. NHI has caused further uncertainty, and this may contribute to increased emigration.The output from medical schools is not able to keep pace with the needs of the population, further aggravated by unfilled posts in the public sector due to budget constraints.

Worsening mental health and well-being

Five behaviours, namely smoking, drinking, lack of exercise and diet, as well as environmental factors drive eight conditions and are responsible for 70% of healthcare costs. COVID-19 exposed the impact of mental health issues and non-communicable diseases.

Macroeconomic issues

Many countries in the world are experiencing wars and civil unrest. South Africans have to deal with political uncertainty and the debilitating impact of load shedding and the high cost of living.

Alternative care models

There is an increased focus on preventative care and the role of predictive analytics to predict and manage risk. Treatment is becoming more personalized. There is also a move away from treatment in hospital to alternative facilities like home-based care where indicated. The global trend is to consider the member in the center of the healthcare ecosystem

Digital/AI and connectivity

Telemedicine provides a digital platform in addition to traditional face-to-face consultations. Digital health solutions are important for democratising healthcare, as they can play a major role in improving access to healthcare services in remote areas in particular. AI has multiple applications in healthcare, assisting with healthcare providers in screening and the early detection of diseases. We are also seeing the "datafication" of healthcare, not just transactional claims data but also healthcare data from alternative sources such as wearables. Data is now predictive, enabling prescriptive analytics (What should I do?), cognitive analytics (What am I not thinking about?), real-time monitoring, and providing a single source of truth.

Scientific advancements

Scientific advancements in healthcare are rapid. We are seeing utilization of robotics in surgery. Innovations in the pharmaceutical sector such as new biological drugs to treat severe and life threatening conditions that were previously considered untreatable. These drugs target specific genes or a protein. In addition, the utilization of Artificial Intelligence is driving a shorter time from discovery to sales. These positive scientific advances come at a high cost which will pose significant challenges to healthcare funders.

Surge in healthcare spend and investment

Obesity spend (GLP1 inhibitors), for example, is expected to grow from $4,5 billion in 2023 to $22,85 by 2030. There has been a growth in biological drugs, and the AI-driven diagnostics market in the US is expected to show annual compound growth of 24,6% from 2023-2030.

Strategic pillars

To document a shared vision, we need to consider key strategic pillars as a framework to guide this vision.

The four key strategic pillars illustrated below have been proposed in a research article commissioned by the World Economic Forum. Whilst healthcare ecosystem would need to evaluate their own strategic pillars, the pillars proposed in this framework are universally relevant. The idea of healthcare equity underpinning each pillar as a foundational goal are especially relevant to the NHI debate in South Africa.

The vision for health and healthcare in 2034 is formed of four major strategic pillars with equity as the foundational goal

Strategic Pillar	Equitable Access and Outcomes	Healthcare Systems Transformation	Technology and Innovation	Environmental Sustainability
	Ensuring equal representation, access and outcomes for all.	Structuring resilient healthcare systems to provide high-quality care.	Cultivating an environment to support innovation in science and medicine.	Reducing impact on the environment, preparing for, addressing climate change.
EQUITY AS THE FOUNDATIONAL GOAL FOR ALL CHANGE				
Objective	The goal is to have equitable access to determinants of health, ensuring health data is representative of the population and ensuring people with equal needs achieve equal health outcomes.	The goal, therefore, is healthcare systems transformation to provide high-quality care under both expected and unexpected circumstances, such as pandemics, geopolitical crises, supply chain botllenecks and Inflation, and to minimize the negative consequences of these disruptions.	The goal Is to cultivate an environment that supports funding, use and implementation of innovative approaches in science and medicine, including wellness, therapeutics and healthcare delivery.	The goal is to reduce the Impact of the healthcare Industry on the environment and prepare for and address climate change for better health and wellness of the global population.

Future healthcare delivery model

This model will need to be organised around megatrends.

- Care should be organised around the consumer's unique needs and preferences rather than the convenience of the supply side.
- A holistic definition of health – physical, mental, emotional, spiritual, financial, and social – should be used.
- Empowered consumers with access to information about health and shared decision making demand access to affordable and personalised cover.
- Care delivery and digital transformation – real-time data insights, secure platforms, AI, virtual care, other sites.
- Innovative and new treatment interventions from existing and new service providers.

It is important to map a patient journey through this ecosystem and link it back to an outcomes framework – cost, quality, access, member experience, and healthcare professional experience.

Barriers

This healthcare delivery model is ambitious but achievable and can be built on the existing framework. However, barriers such as infrastructure restraints and regulatory challenges will need to be addressed and mapped against the applicable strategic pillar. There are many barriers to be overcome in the implementation a new healthcare delivery model. Some of these barriers need to be addressed by the public sector, some by the private sector and some by the public and private sector working together.

Solutions

- A disruptive mindset will be required.
- An investment in technology and data will be required, and the positioning of digital, AI and data strategies must be clearly understood.
- Embrace a partnership model (pharma, med tech, hospitals, public sector, etc.).
- Form new strategic partnerships between stakeholders.

Medscheme is currently going through a product design process with clients for 2025. It is an onerous process requiring a review of the scheme's financial position, competitor analysis, broker feedback, benefits, and new initiatives. We hope to launch a competitive product with competitive contribution increases and product enhancements towards the end of the year.

Sanlam is a major player with scale and has the ability to shape the future of healthcare in South Africa.



Healthcare into the future through an integrated approach



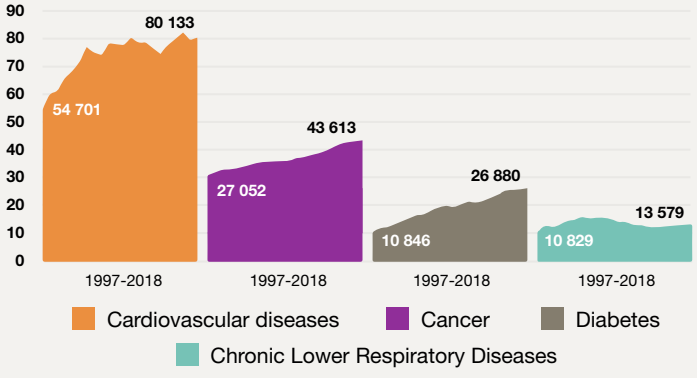
Ansie vd Merwe
General Manager: Private Operations
Pharmacy Direct

We know we must look after our finances if we want to be financially confident. Do we take care of our health in the same way that we take care of our finances?

If we are healthy, we can work to improve our finances, and if we are sickly, a good financial position can provide the best possible treatment, but at what cost to our quality of life? No matter how we look at this, it is always better to be healthy.

Where are we now and how did we get here? In South Africa we have seen an increase of 58,7% in diseases such as **cardiovascular disease**, **cancer**, **diabetes**, and **chronic lower respiratory disease**. And we have no reason to think that the curve will reverse when we analyse the behaviour of patients with chronic diseases.

Deaths due to non-communicable diseases over a 20-year period:

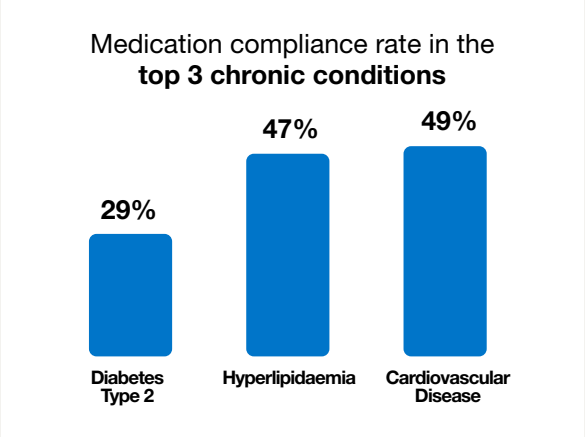


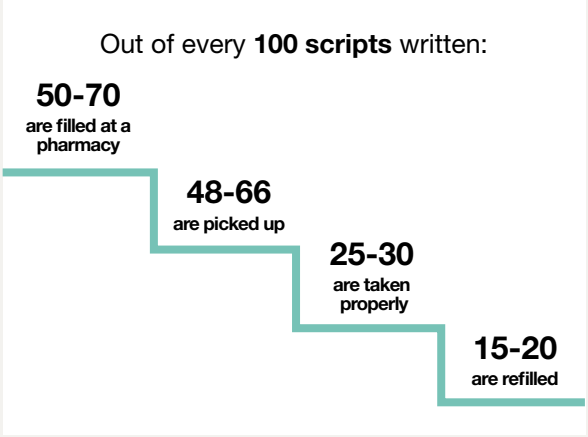
Source: Non-communicable diseases in South Africa: Findings from death notifications 2008-2018.

Most of these diseases result from lifestyle choices resulting in obesity, or smoking, or inactivity. We made these choices, and now we have been diagnosed with a chronic disease.

Is this our wake-up call to take responsibility for the choices we make? It seems we continue making poor choices. Studies show that after diagnosis, many people choose not to take their medication at all, or take it irregularly or incorrectly.

Medication compliance remains a problem amongst the chronically ill





Source: 1 - Medscore, Medicines Review 2029. 2 - Grail Insights.

Thirty per cent of diabetics do not take medication at all.

Forty-seven per cent of patients with high cholesterol and 49% of patients with heart disease are not taking medication at all. These are silent diseases, i.e., you do not feel the effect of your high blood pressure until you have organ damage and you may not notice high cholesterol, until you experience an incident such as a stroke or a heart attack.

The data on the left is supported in another study. Do you know that 30 to 50% of patients diagnosed with a chronic disease do not even take their prescriptions to a pharmacy to be filled? Are we too busy? Do we think we will have it checked again in a month or so and will consider taking meds if the disease is still there? And then we do not get to it …

Only 25% of patients with chronic disease take their medication as prescribed.

Furthermore, only 15 to 20% of chronic patients collect refills from their pharmacies if left to their own devices.

Improving medication compliance can have impact on reducing healthcare costs

10%

A large BMJ study researching the economic impact of medication nonadherence across different disease groups found that **10% of hospitalisations are attributed to medication non-adherence**, with typical **non-adherence patients requiring three extra medical visits per year.**

23%

A study published in the journal Health Affairs found that **improved medication adherence led to a 13% reduction in total healthcare costs** for patients with chronic conditions The study also found that improved adherence led to a **23% reduction in hospitalization costs**.

28%

A study published in the journal PloS One found that the **risk of hospitalization was 28% lower for patients with comorbidities who were adherent to their medications** than for patients who were not adherent to their medications.

Improved medication adherence and better managed chronic patients can lead to reduced long-term funding costs in a number of ways:

Preventing complications and hospitalisations.

Reducng the need for other healthcare services.

Improving quality of life, reducing healthcare costs in the long-term

Where does this leave us?

Ten per cent of all hospital admissions are attributable to patients who are supposed to take chronic medication but are not. We should not be surprised.

What would happen if we could change patient behaviour? Improved adherence to prescribed medication improves overall healthcare cost by 13% for patients with chronic disease, and hospital costs by 23%. There are many other studies to support this.

If our aim is to accelerate a better working South Africa where:

- every worker,
- every family and
- every community

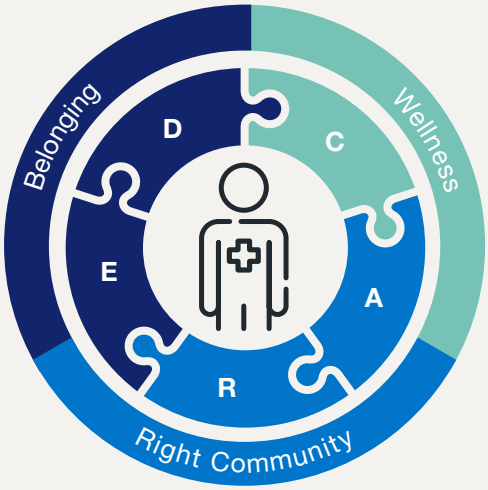
are **healthy** and **financially confident**,

it is clear that patients with a chronic illness need support, assistance and guidance.

Previous speakers painted the picture of how we at AfroCentric touch the lives of so many persons by supporting their healthcare needs, contributing to 'HEALTHIER TOGETHER'.

It was also referred to that putting patients at the centre of everything we do to enhance and develop healthcare, will be taking patient care into the future. However, the future, in many respects, is already here. I will explain how we can improve outcomes, reduce complications, dread disease and death through an integrated approach to the management of patients with chronic conditions.

With an integrated patient journey, we can ensure that each patient is **CARED** for. This allows for the **ongoing management of a member/patient's healthcare** throughout their journey ensuring that care is personalised to t**heir unique medical needs and goals**. Our Pharmacists work with patients and their healthcare team to ensure the treatment plan is consistent and coordinated which improves overall patient care.



C **Check - Wellness**
Through comprehensive wellness checks, risks are identified and can be managed

A **Analyse and Diagnose - Dctors Network**
Our large Healthcare Network provides patients with access to Doctors where they can get the correct diagnosis and treatment plan.

R **Ratify and Receive Care - Medicine Management**
Patients can then access the Chronic Medicine Benefit to access medication specific to their condition.

E **Educate, Encourage, Empower - Disease Management**
Patients gain access to health coaches who assist in coordinating access to appropriate care as well as educate, encourage and empower around health and wellness.

D **Dispense and Delivery - Pharmacy Direct**
Patients will have their medication delivered conveniently to them while receiving personalised care, and medication they need.

- ## Identify risk

  I said earlier that high blood pressure and cholesterol are silent diseases and that we often do not know that we are affected until we have an incident like a stroke or a heart attack. Early detection and treatment can reduce the risk of a stroke by 50%. Encourage clients to attend health screenings at employer health days or to go to participating pharmacies. Medical schemes pay for these screenings at least once a year and if risk is identified it may u

- ## Go to the doctor

  When risk is identified, visit your doctor. Choose a doctor who has joined the network of prescribers for your medical scheme. This doctor can register your chronic condition and request authorisation from your medical scheme for treatment. They can also register qualifying patients on a disease management programme to unlock further benefits, such as access to a case manager whom you can talk to about health matters.

- ## Submit a prescription



Specialised Medication

Speciality Medication

We offer a variety of medications and devices that are only available through a speciality pharmacy and require special storage and/or handling

9 000
Scripts processed daily

180 000
Prescriptions a month



Personalised and Coordinated Care

Multiple Channels of Care

WhatsApp I Phone I Email I Web

31
Pharmacists providing personalised care and support

Personalised Reminders

Personalised reminders are sent to patients to renew scripts when due

Enable Medication Adherence

Automated 28-day delivery cycles with direct deliveries to a patient's address of choice (home, work or holiday home)

Seamless Process

Seamless integration with medical schemes to authorise claims and easy-to-use options for co-payments



Affordable and Accurate Medication

Lower Dispensing Fee

R0
Delivery Fee on Chronic Medication

R0
Administration fee

R0
Delivery Fee on Webstore Orders with Chronic Medication

Care
Thoughtful packaging to make the patient/member feel cared for and supported



Delivery of Medicaion

24 to **48H**
Prescription processing

99.9%
On-time delivery service record

Multiple
Delivery options

9
Delivery to all nine provinces

154
Patients in high-risk areas that are delivered medication every month on time

6 132
Patients in rural areas that are delivered medication every month on time

When the doctor has prepared a prescription, he can submit it directly to the designated or preferred pharmacy provider via email or on-line on the doctor's portal. Ensure that you choose a pharmacy that will confirm authorisation with your medical scheme to ensure access to chronic benefits and prevent exhausting day-to-day benefits prematurely. Your pharmacist should update your authorisation if required.

Your pharmacist must be able to explain your benefits, offer solutions to reduce or eliminate co-payments and submit the prescription to your medical scheme.

Your pharmacist must be comfortable talking to all your healthcare providers – your doctor, your medical scheme's benefit manager, your medical scheme and, most importantly, to you.

Choose a pharmacy that will deliver your medication to your address of choice – we have seen that only 25 to 50% of patients go to pharmacies to refill their prescriptions. Rather bring medication to the patient, every month. We know that if medication is available, patients are more inclined to take that medication, preventing complications and improving outcomes.

Choose a pharmacy that will remind you when it is time for your six-monthly doctor's visit to check that you are doing well, and to renew your prescription.

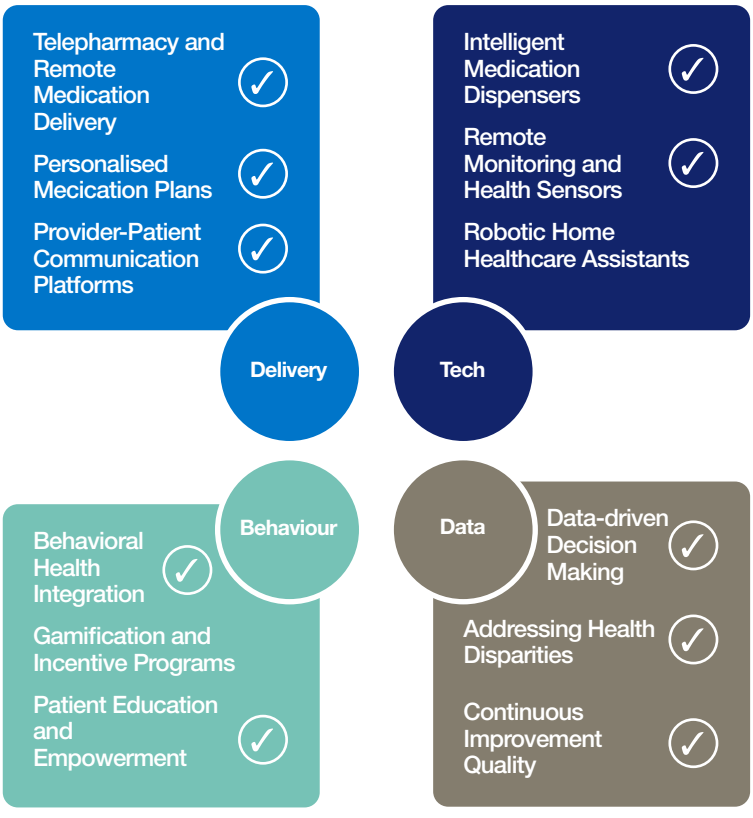
Pharmacy Direct, as a specialist pharmacy, does all of this through a fully integrated model with Medscheme for all Medscheme-managed medical schemes. We do not look only after Medscheme patients, though, but after members of most medical schemes. And more…



- Main Objectives of the Centralised Chronic Medication Dispensing and Distribution (CCMDD) Programme:
  - Improved access to chronic medicines
  - Improved quality of care and service delivery
  - Improved treatment adherence
  - Improved supply chain processes
  - Improved availability of reliable data to inform decision making at:
    - Facilities, Service Providers, Pick-up Points
  - Reduced workload for public health facilities and healthcare workers
  - Reduced patient waiting times and better time management
  - Decongestion of health facilities through selection of alternative Pick-up Points
- Pharmacy Direct is one of biggest CCMDD Service Providers, rendering dispensing and distribution services to five provinces (GP, KZN, Limpopo, N/West and N/Cape)
- We serve more 2,5 million active patients and are distributing an average of 600K parcels per month
- BHF recognised the ACCESSto chronic medication by awarding Pharmacy Direct with a Titanium Award.

We truly live up to the theme of this conference, supporting not only every worker, but every person, every family, and every community in the five provinces where we are providing medication under the CCMDD Programme – 'Dablap' meds. Centralised Chronic Medication Dispensing and Distribution offers access to chronic medication to 2,5 million South Africans. This public-private partnership has been incredibly successful and recognised with a Titanium Award at the 2024 BHF Conference for the provision of access to healthcare.

Pharmacy Direct is 20 years old this year and we can share some of our contributions towards taking chronic care into the future.



✓ Implemented at Pharmacy Direct

The future is already here!

Reducing the cost of the healthcare burden in SA through integrated corporate solutions



Sandile Mbele
Executive Director:
AfroCentric Corporate Solutions
and
Dr Shamila Fakie
Functional Specialist
AfroCentric Corporate Solutions

The United Nations lists Good Health and Well-being as its third Sustainable Development Goal. To achieve this goal, a concerted effort to strengthen the healthcare system in South Africa is required, extending to any organisation, institution or individual who performs activities with the aim of improving, preventing, maintaining, and promoting health (WHO, 2007:2).

The World Health Organisation (WHO) constitution states: "Health is a state of complete physical, mental and social well-being and not merely the absence of disease or infirmity."

Introduction

- In the SA context, the quadruple burden of disease, viz., HIV/AIDS and TB, maternal and child mortality, non-communicable diseases such as hypertension, cardiovascular diseases, diabetes, cancer and mental illnesses as well as injury and trauma have both a direct and an indirect impact on organisations and their employees.
- Sanlam, through its acquisition of a controlling stake in AfroCentric in May 2023, now benefits from the more than five decades of experience in health risk management and health administration, adding a strong healthcare capability to its existing suite of financial products.
- The union of these two industry giants has the potential to transform the healthcare landscape in Africa and enable Sanlam to fulfil its brand promise, that is, to live a Life of Confidence. As a healthcare leader, Sanlam, through AfroCentric, endeavours to lead the transformation of healthcare, aligned with South African and global strategic objectives.
- It is with this backdrop in mind that Sanlam Health, a division of Sanlam Corporate, unpacks some valuable insights on how integrated Employee Benefits and Healthcare solutions unlock value for the employer and employee and reduce the potential costs of this healthcare burden.

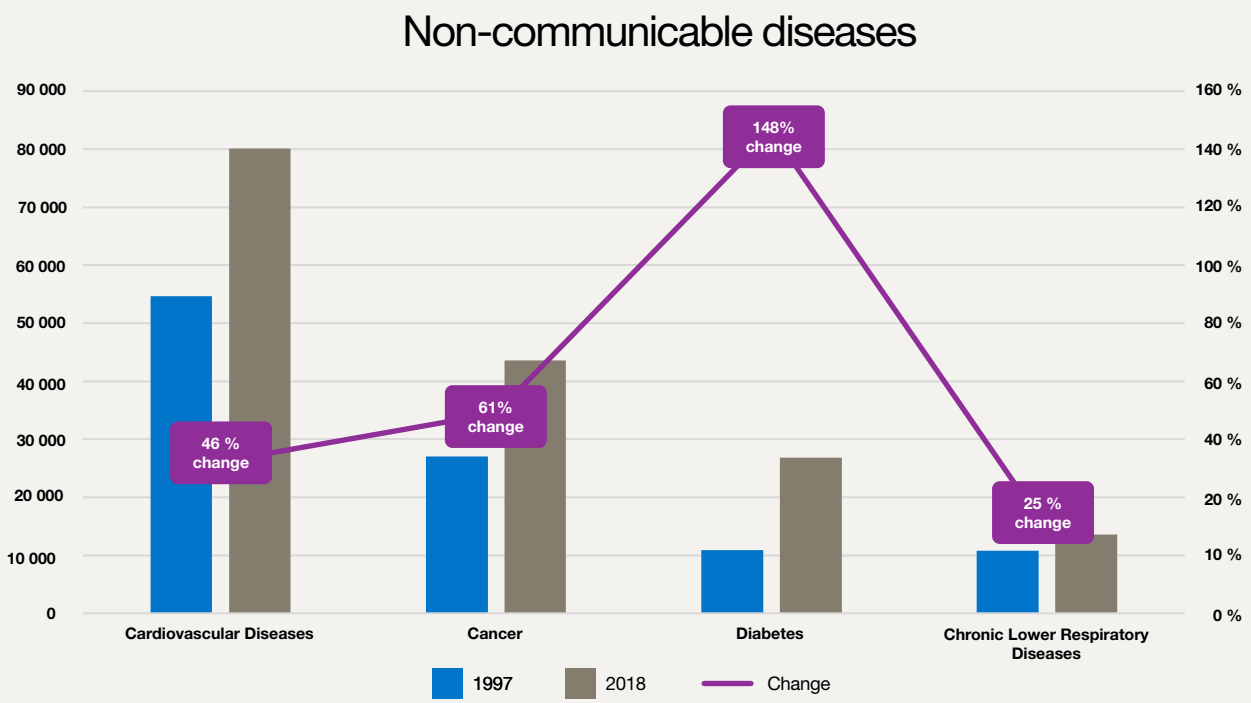
The ten leading underlying natural causes of death, 2018-2020

In 2020, the COVID-19 pandemic left an indelible mark on the world. Non-communicable Diseases, however, still make up half of the top ten natural causes of death in SA.

	2020			2019			2018		
Causes of death (based on ICD-10)	**Rank**	**Number**	**%**	**Rank**	**Number**	**%**	**Rank**	**Number**	**%**
Covid-19	1	32 757	6.7%	*	*	*	*	*	*
Diabetes Mellitus	2	32 100	6.6%	1	26 315	5.7%	2	27 383	5.9%
Cerebrovascular Disesease	3	27 066	5.5%	3	23 247	5.0%	3	23 509	5.0%
Hypertensive Diseases	4	24 847	5.1%	5	20 602	4.4%	6	20 985	4.5%
Influenza and pneumonia	5	19 805	4.0%	6	17 426	3.8%	7	18 009	3.9%
Tuberculosis (TB)	6	19 757	4.0%	2	25 409	5.5%	1	28 315	6.1%
Human Immunodeficiancy Virus (HIV)	7	19 759	3.2%	4	22 128	4.8%	5	22 533	4.8%
Ischaemic Heart Disease	8	19 382	4.0%	7	15 969	3.4%	8	13 863	3.0%
Other forms of Heart Disease	9	15 057	3.1%	8	15 777	3.4%	4	23 301	5.0%
Other Vral Diseases	10	12 434	2.5%	9	13 257	2.9%	*	*	*
Chonic lower respiratory diseases	*	*	*	10	12 384	2.7%	9	13 825	3.0%
Malignant Neoplasm of Digestive Organs	*	*	*	*	*	*	10	11 061	2.4%
Other Natural		223 594	45.7%		213 500	46.1%		208 498	44.6%
Non-natural		47 186	9.6%		57 604	12.4%		56 283	12.0%
Total		**489 744**	**100.0%**		**463 618**	**100.0%**		**467 565**	**100.0%**

Source: Mortality and causes of death in South Africa, 2020: Findings from death notifications, StatsSA (Category not in top ten).*

The healthcare burden in SA



Source: Non-communicable diseases in South Africa: Findings from death notifications 2008-2018.

- Deaths due to non-communicable diseases (NCDs) comprising cardiovascular diseases, cancer, diabetes and chronic lower respiratory diseases increased by 58,7% over a 20-year period, from a total of 103 428 in 1997 to 164 205 in 2018.
- This trend is expected to continue unless measures are implemented, such as early detection through screening, preventive health strategies including health education, and optimal disease management at a primary healthcare level.
- As healthcare leaders, we need to emphasise the importance of preventative measures “to promote, restore or maintain health” to combat the associated morbidity and mortality of NCDs so that the burden on our constrained healthcare resources can be alleviated.



What risk factors drive the most death and disability combined?

Risk ranking	2021	2011	Change in DALYs per 100k
Unsafe sex	1	1	-8 796
Malnutrition	2	2	-2 407
High body-mass index	3	5	+268
High blood pressure	4	3	-152
High fasting plasma glucose	5	7	+216
Dietary risks	6	9	+17
Air pollution	7	6	-673
Tobacco	8	8	-434
High alcohol use	9	10	-257
Water, sanitation and hygiene (WASH)	10	4	-1 255

Behavioural risks Metabolic risks Environmental/occupational risks

Source: Institute for Health Metrics and Evaluation

- In evaluating the risk factors associated with the high burden of disease in South Africa, it is noted that many lifestyle-associated factors are contributing towards the healthcare landscape that we are witnessing.
- These include nutrition, obesity, smoking cigarettes, and alcohol use. We term these modifiable risk factors, as measures can be implemented to mitigate the associated risks through adapting our behaviours and lifestyle.
- The burden of disease, as demonstrated by these studies, directly affects healthcare expenditure in South Africa.
- On a positive note, the change in disability-adjusted life year (DALY) per 100k population for all but three of the risk factors, demonstrates a downward trend. The three risk factors showing an upward trend over the past ten years are high body-mass index, high fasting plasma glucose and diet.



The burden of disease is calculated using the disability-adjusted life year (DALY). One DALY represents the loss of the equivalent of one year of full health. DALYs for a disease or health condition are the sum of the years of life lost due to premature mortality (YLLs) and the years lived with a disability (YLDs) due to prevalent cases of the disease or health condition in a population.

Direct costs of healthcare in South Africa

Direct costs

- Medical cover
- Cost of cash
- Healthcare services
- Medication
- Transportation
- Other associated costs

Healthcare expenditure in South Africa is approximately 8,5% of the country's GDP and is relatively equally shared between the public healthcare system (serving ~85% of the population) and the private sector healthcare system (serving ~15% of the population).

- Direct costs associated with ill health relate to the ever-increasing burden on healthcare funding resources for members, which they access through medical schemes and health insurance or cash available for healthcare service providers and medication, as well as transport and other associated costs.
- As healthcare expenditure is expected to grow significantly in the next few decades, an effort should be made to curtail this inflationary cost as it will impact everyone in South Africa either directly or indirectly through tax spend.

Benchmark Insight 1

Findings from the **Sanlam Benchmark 2024** Survey demonstrate that 39% of Sanlam Umbrella Fund participating employers have experienced an increase in absenteeism because of stress, anxiety, or other mental health issues.

Q10.4 Over the past 2 years has the employer experienced an increase in absenteeism as a result of stress, anxiety or other mental health issues amongst employees?

	2024
Base: All Respondents	100

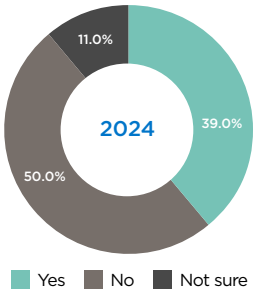


Table Size	100
	100.0%



Indirect costs of healthcare in South Africa

Indirect costs

- Absenteeism
- Medical boarding due to ill health or injury
- Decreased employee morale
- Increased employee churn
- Loss of household income
- Decreased workforce productivity

- Indirect costs of healthcare in South Africa relate to absenteeism, medical boarding due to ill health or injury, decreased employee morale, increased employee turnover, loss of household income and decreased workforce productivity.

The mental health burden

The Mental State of the World report states that South Africa had the lowest MHQ (Mental Health Quotient) score of 46% out of 34 countries.

Source: Sapien Labs - Mental Health Million Project 2021.

Nearly one in three South Africans will suffer from a mental disorder in his or her lifetime.

Source: "Closing the mental health treatment gap in South Africa: a review of costs and cost-effectiveness" - Helen Jack, Ryan G. Wagner, Inge Petersen, Rita Thom, Charles R. Newton, Alan Stein, Kathleen Kahn, Stephen Tollman, and Karen J. Hofman 2014

As many as one in six South Africans suffers from anxiety, depression or substance-use problems.

Source: SADAG.

Less than 16% of sufferers receive treatment for mental illnesses.

Source: SADAG.

Only 27% of South Africans reporting severe mental illness ever receive treatment.

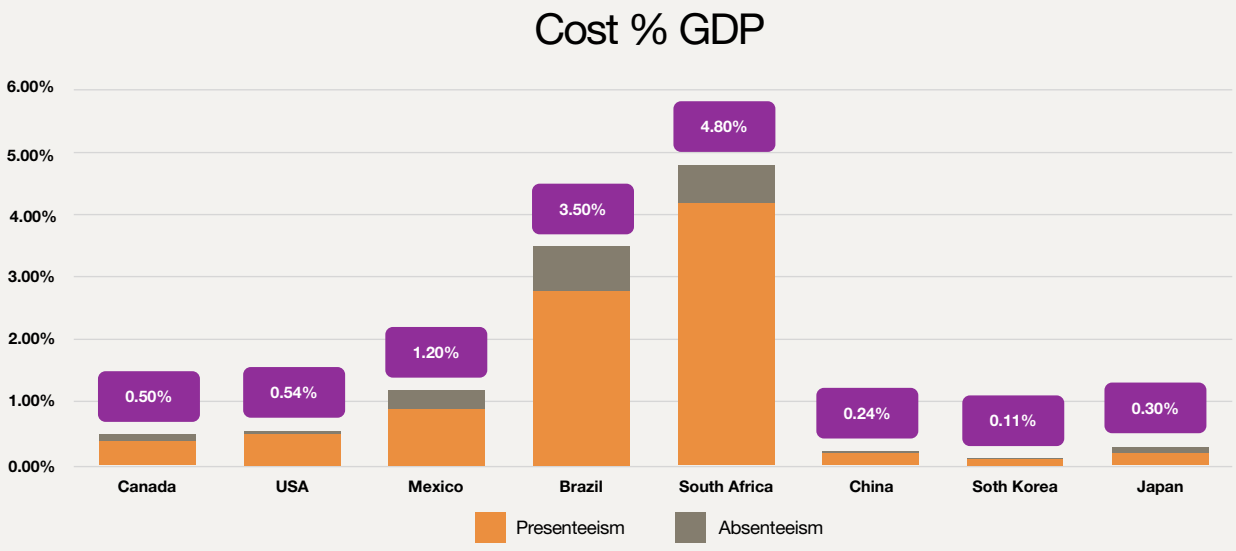
Source: SADAG.





The cost of mental illness

From 0,1% to 4,2% of a country's GDP is lost due to workers with depression attending work while unwell (presenteeism).

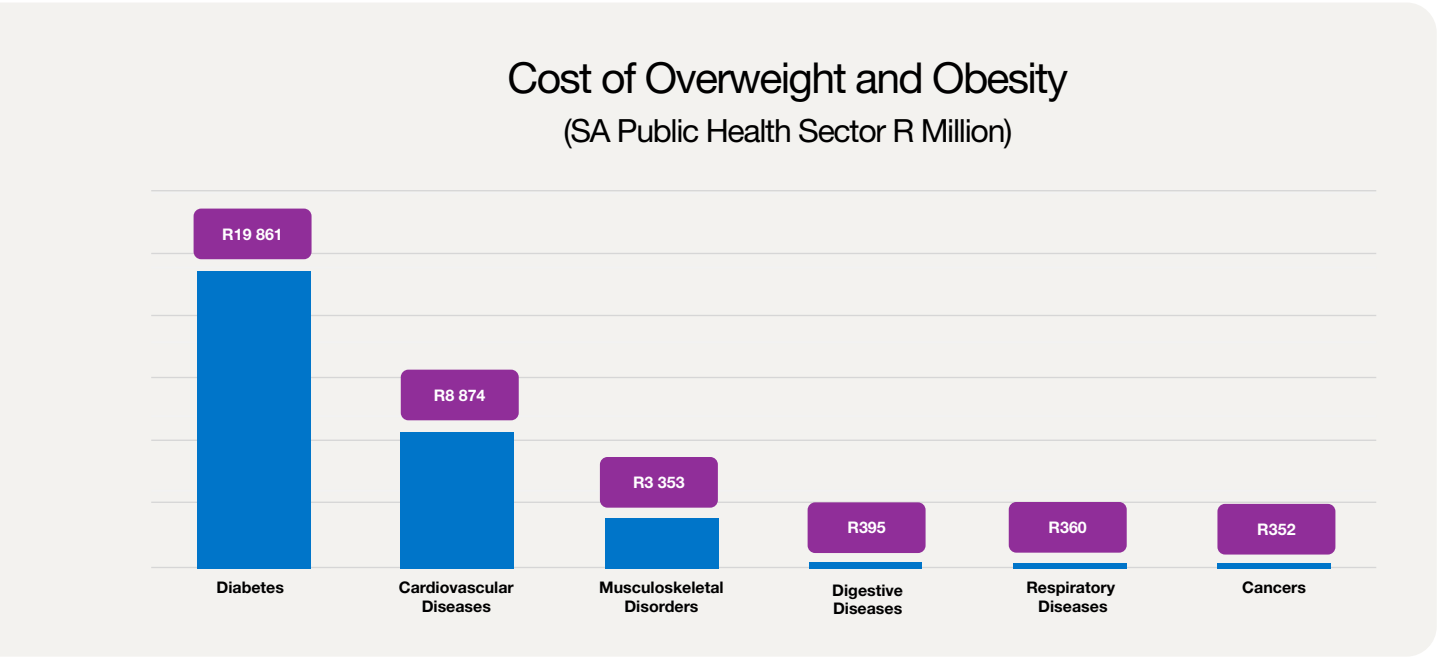


Source: Evans-Lacko, S. & Knapp, M. "Global patterns of workplace productivity for people with depression: Absenteeism and presenteeism costs across eight diverse countries. Social Psychiatry and Psychiatric Epidemiology" Vol. 51, 1525–1537 (2016).

- The cost of mental health-related presenteeism in SA has been estimated at R96 500 per employee annually, totaling R235 billion or 4,2% of GDP, versus R14 000 per employee and R33 billion or 0,6% of GDP annually for absenteeism (Schoeman, 2022).
- At the combined total cost equivalent of 4,8% of GDP, South Africa has one of the highest costs of mental illness in the world.
- One in four employees has been diagnosed with depression, and the country's economic contributors aged 25 to 44 are most affected, taking more than 18 days off work per annum due to the condition (SADAG).
- More than 40% of all work-related illness is due to work-related stress, major depression, burnout and anxiety disorders (Schoeman, 2022).

Increasing levels of obesity linked to higher healthcare costs

A study by the Human Sciences Research Council (HSRC) conducted between 2021 and 2023 found that almost 50% of adult South Africans were overweight or obese.



Source: Estimating the healthcare cost of overweight and obesity in South Africa. Global Health Action, 15(1).

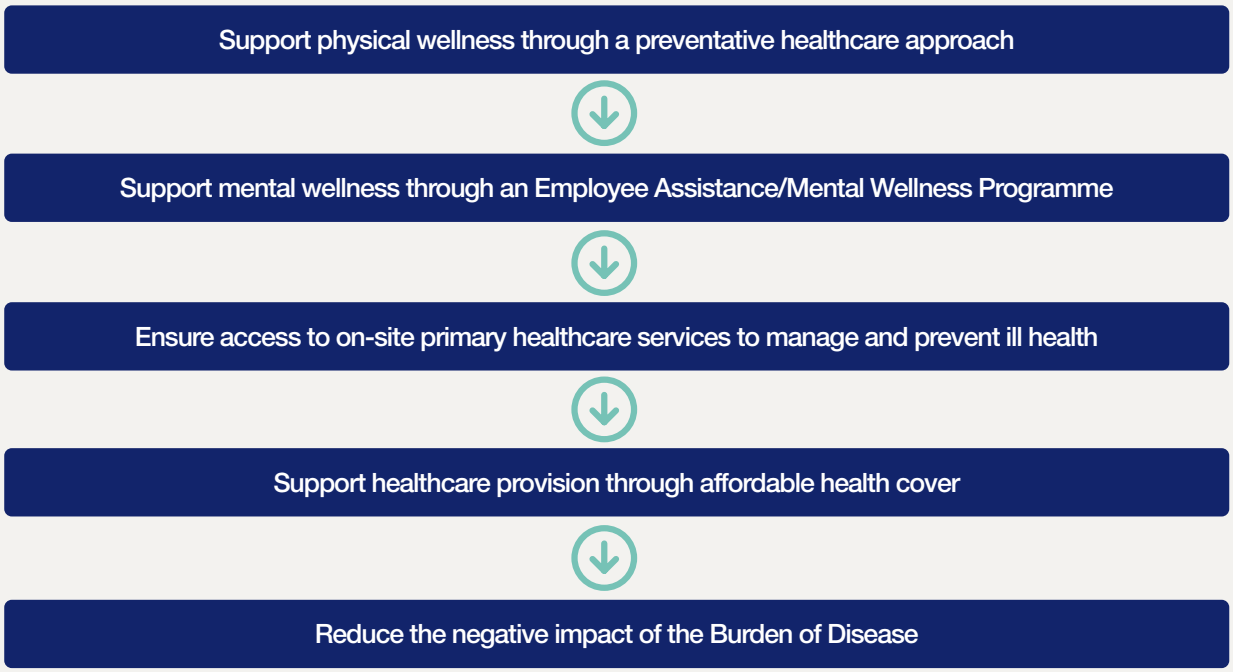
Total cost of overweight and obesity was estimated to be R33,2 billion in 2020. This represents 15,48% of government health expenditure and is equivalent to 0,67% of GDP. Annual per person cost of overweight and obesity is R2 769.

Benchmark Insight 2

According to the Sanlam Benchmark 2024 Survey results, Sanlam Umbrella Fund participating employers believe that the following constitute the top five ideal suite of benefits and services that should be included for all employees:

1. Retirement fund
2. Group risk
3. Medical aid
4. Financial wellness programmes
5. Financial advice

How do we resolve these challenges?



- Resolutely pursuing the integration of employee benefits with quality, affordable and accessible health solutions, e.g. low-cost medical scheme options, primary health insurance, on-site primary health clinics, virtual consultations, and Employee Assistance Programmes, improves the health and well-being of all employees and their dependants and will, in addition, ease the untenable burden on the employees' disposable income.
- By delivering integrated healthcare solutions we can provide sustainable and quality healthcare outcomes with quantifiable ROI benefits that include staff retention, reduced absenteeism and presenteeism, and increased workplace productivity.

How integrated employee benefits and health solutions unlock value

The benefits of employers investing in corporate wellness programmes extend beyond direct healthcare savings and assist organisations to ensure sustainable business and talent attraction, and preserve brand reputation.

Sustainable Business

- Healthy employees are more productive and will sustain the company through anticipated business challenges
- Healthy employees are less risky in safety-sensitive occupations, thereby positively impacting business operations

Talent Attraction

- A wellness culture at work is a powerful drawcard for young talent
- Supportive Employee Assistance Services provide a strong message that the company cares, and support the Employee Value Proposition

Brand Reputation

- The company's wellness activities build a reputable and responsible corporate image
- Visibly supporting wellness increases the brand value of the organisation

Benefits to corporates

Increased employee satisfaction and loyalty → Improved individual performance → Higher organisational performance → Increased revenue

Employee morale and loyalty improve, resulting in talent retention.

High-performing, well-balanced individuals are created through a holistic wellness approach.

High-performance teams resulting from a positive leadership approach; future leaders moulded through a holistic organisational wellness approach.

Optimally functioning executives, senior managers and their teams are able to deliver at their best, resulting in financial benefits for the company.

Improved employee health risk profile, limiting risk to business.

Decreased healthcare spend on disease management.

Benchmark Insight 3

Findings from the **Sanlam Benchmark 2024** Survey revealed that **53%** of Sanlam Umbrella Fund participating employer respondents believe that a holistic integrated health and financial wellness programme delivers higher productivity and staff happiness. This number was **49%** for standalone employer fund respondents.

53%
Believe a holistic integrated health and financial wellness programme delivers higher productivity and staff happiness

21%
Do not take responsibility for an employee's health but adhere to legal requirements in this regard

14%
The employer integrates some programmes but manages others independently

12%
The employer selects wellness / health programmes independent of each other



Access to private healthcare: Cost vs income?



Mbali Khumalo
Managing Director
Simeka Health

Access to private healthcare is unfortunately unattainable for many South Africans, with affordability being the main barrier. Many factors do impact affordability, such as legislated Prescribed Minimum Benefits (PMBs), overregulation, restrictions in product design, imported inflation, technological advances, limited supply of quality care, limited tax incentives, etc.

While private healthcare typically offers shorter waiting periods and a higher standard of care, these benefits often come at a price premium that is out of reach for many South Africans. As a result, there's a significant disparity in access to quality healthcare between private and public healthcare services. This state of affairs underscores the ongoing challenges in the public healthcare system, exacerbated by management and governance issues, as well as underinvestment in the public sector. However, efforts are continually being made to improve access and affordability for all citizens.

A closer look at the healthcare utilisation of public and private healthcare sectors shows another disparity driving consumer behaviour. While the public healthcare system offers lower cost or free access to care, the quality can vary considerably within the system.

According to the Council for Medical Schemes' (CMS) annual report of 2022/2023, the South African healthcare contribution is significantly higher per capita in the private sector than the public sector budget allocation (refer to Table 1 below).

Table 1:

	Public sector	Private sector (Medical Schemes)
Number of lives	52m	9m
% of population	85%	15%
Funding source	Taxes allocated to Health Budget	Medical scheme contributions (Tax credits excluded)
Amount	R259bn (2022/2023)	R232bn (2022/2023)
Per Capita	R4 980 per annum	R25 777 per annum

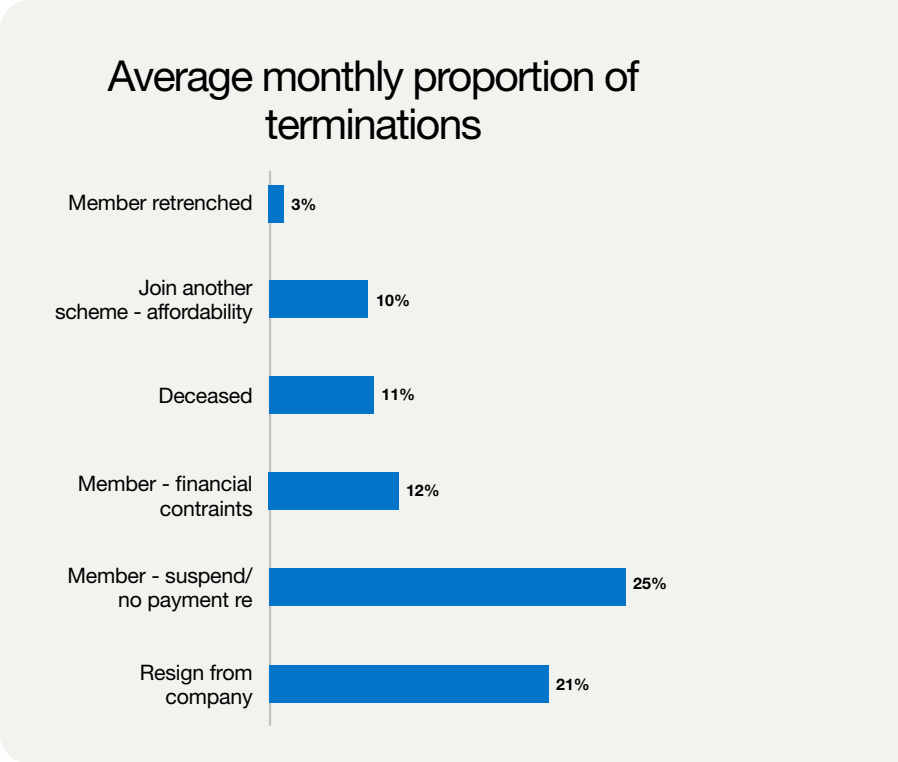
Medical schemes offer options that range from entry-level hospital plans to comprehensive cover plans. However, according to the Sanlam 2024 consumer study, two out of three medical scheme members do not consult a healthcare adviser for assistance in selecting an option that suits their needs and affordability. This raises the question of whether employees are well informed and have taken all the relevant factors into consideration when selecting their healthcare plan. In an employer group case study performed by Simeka Health in 2023, 10% of employees were on inappropriate plans, i.e. either over- or underinsured. In addition to this, most employees are oblivious to the tax benefit of the medical scheme tax credit. This benefit is often overlooked as it is not received in hard cash.

Affordability challenges in South Africa are commonly caused by a variety of factors, which include among others:

- **Income Levels:** Many South Africans have limited incomes, and healthcare expenses can consume a substantial portion of their earnings.
- **Employment Status:** High levels of unemployment, with many people engaged in the informal sector without access to employer-enabled healthcare benefits, make private healthcare services particularly challenging to afford.
- **Medical Scheme Coverage:** While some individuals may participate in medical schemes, the associated contributions, co-payments, and exclusions can still pose affordability challenges, especially for those with entry-level medical scheme coverage.
- **Geographical Accessibility:** The accessibility of healthcare facilities and services can vary based on location, with rural and underserved areas frequently lacking sufficient infrastructure and services. This can increase the cost of accessing care, as individuals may have to travel long distances to access healthcare.
- **Out-of-Pocket Expenses:** Even within the public healthcare system there may be out-of-pocket expenses for specific services or medications, which may be unaffordable for certain groups of healthcare consumers.
- **Quality of Care:** Affordability is not solely about the cost, but also about the perceived value of the care provided. Even if healthcare services are relatively affordable, they may be of substandard quality or perceived as ineffective.
- **Young Population:** For the relatively young age profile of the population, healthcare provision is of a lesser priority as they are healthier.

A data analysis performed by the Afrocentric Data Science Hub indicates that 82% of monthly terminations of medical scheme membership are made due to the reasons stated in Graph 1 below. It can be concluded that affordability is the largest single driver of terminations, implying that it is also the single largest deterrent for South African citizens not to participate in private healthcare.

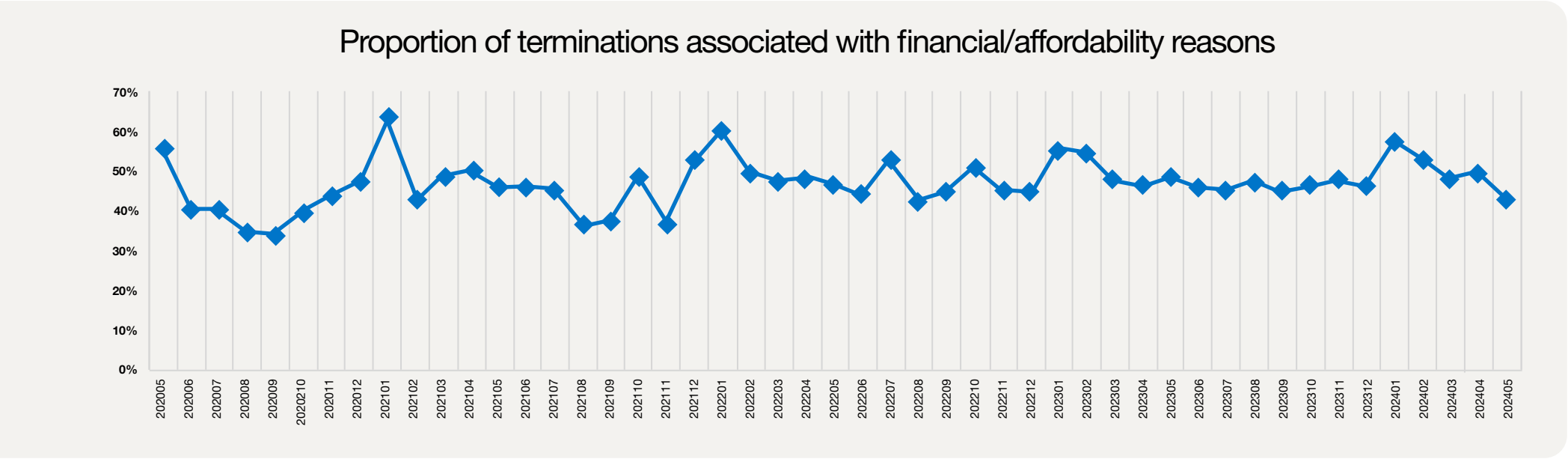
Graph 1





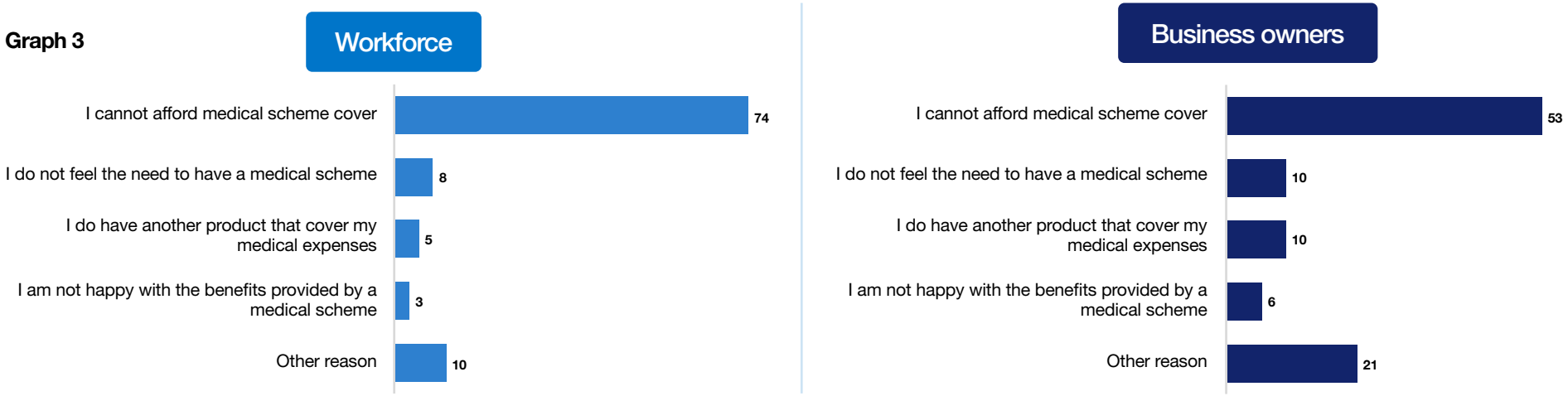
Further analysis indicates that, over a five-year period, 47% of medical scheme termination reasons are directly linked to affordability, as can be seen in Graph 2 below.

Graph 2



The Sanlam Benchmark 2024 consumer study found that a wide range of participants cited affordability as the reason for not participating in private healthcare. This cuts across all categories, employees as well as business owners.

Graph 3



The study also found that cutting back on non-essentials (55%) and cancelling healthcare provision (11%) are high on retirees' list of expenses, which they then attempt to reduce when faced with financial challenges (refer to Graph 4 below). Of the 55% of retirees who cut back on expenses, 43% cut back on medical aid and/or health insurance (refer to Table 2). More concerning is that this life stage is when access to quality care is critical.

Graph 4

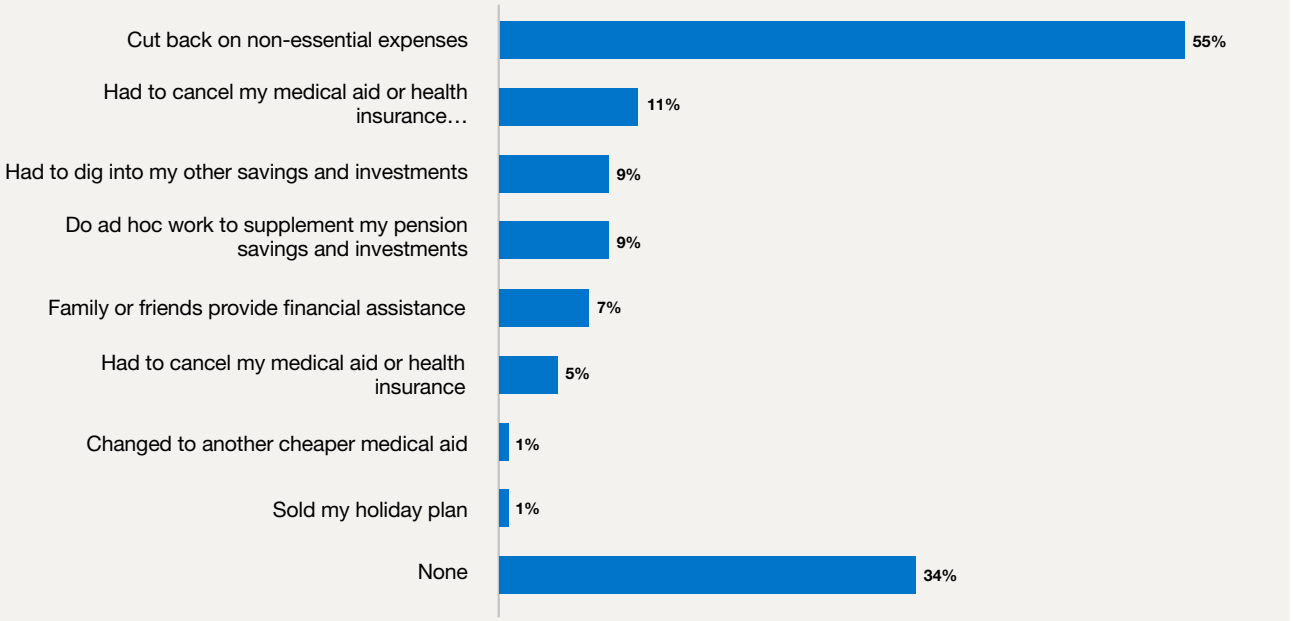


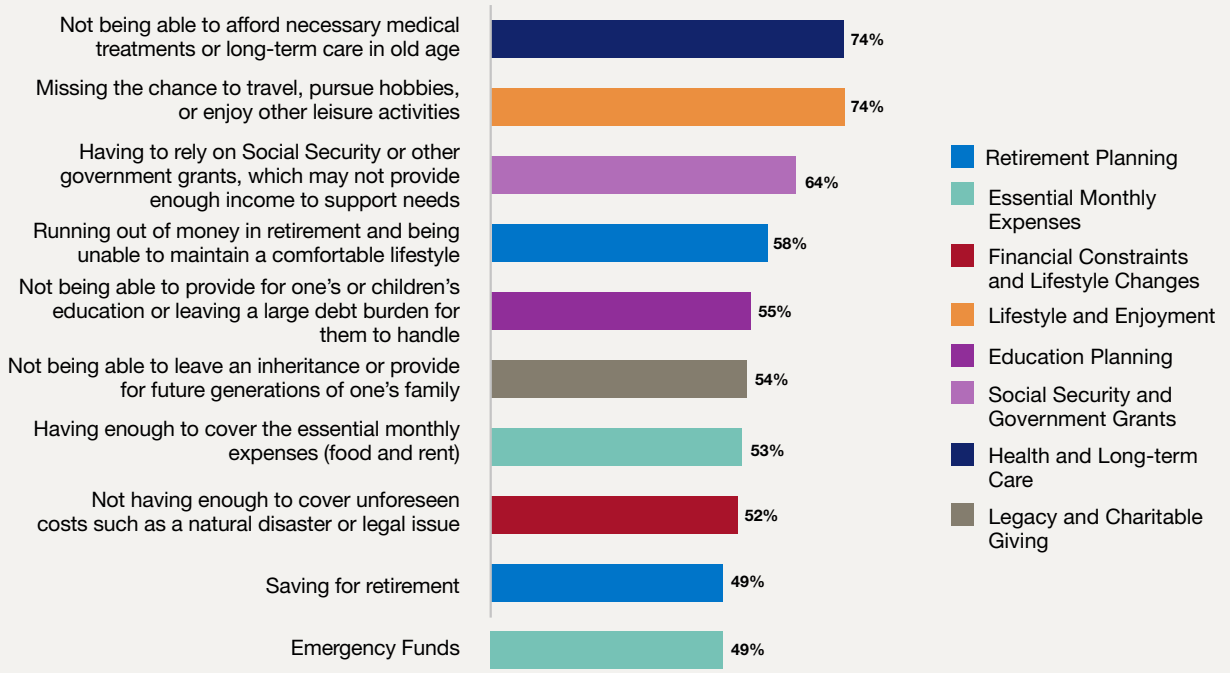
Table 2

55% of retirees had to cut back on non-essentials to cope	%
Restaurants / eating out	55%
Medical aid and/or health insurance	**43%**
Groceries (food and household items)	43%
Travel / transport / petrol	41%
Credit cards / store cards	33%
Hobbies / sports / leisure activities / entertainment	33%
Internet / streaming subscriptions	16%
Household maintenance and repairs	16%

The financial burden is further exacerbated by the high level of unemployment, as highlighted by 52% of participants in the same study, who indicated that they need to financially support extended family members regularly on a monthly basis.

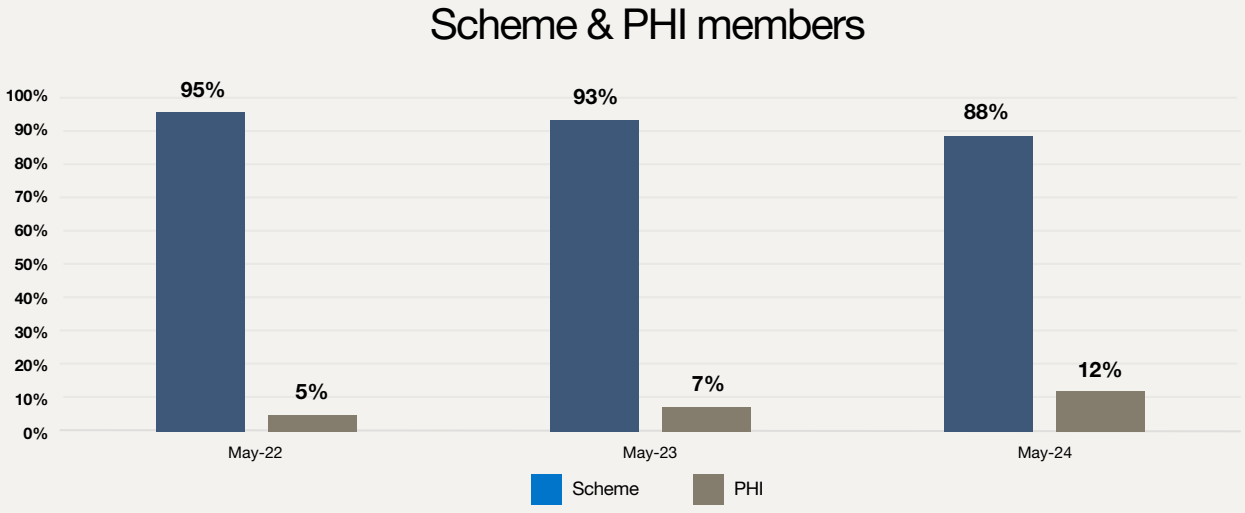
However, most participants in the same study cited access to quality healthcare as a top-of-mind concern. Graph 6 indicates the order of the most pressing issues based on the participants' responses. They also indicated that this causes financial stress, which drives mental and physical ill health.

Graph 6



While most employers are still making participation in medical schemes a condition of employment, adopting Primary Health Insurance (PHI) as an alternative for low-income earners is slowly gaining traction. These employees were mostly excluded and uncovered due to their earnings status. The tracking of the Simeka Health book indicates a notable steady increase in Primary Health Insurance participation over three years – an encouraging sign of improvement in the healthcare system.

Graph 7



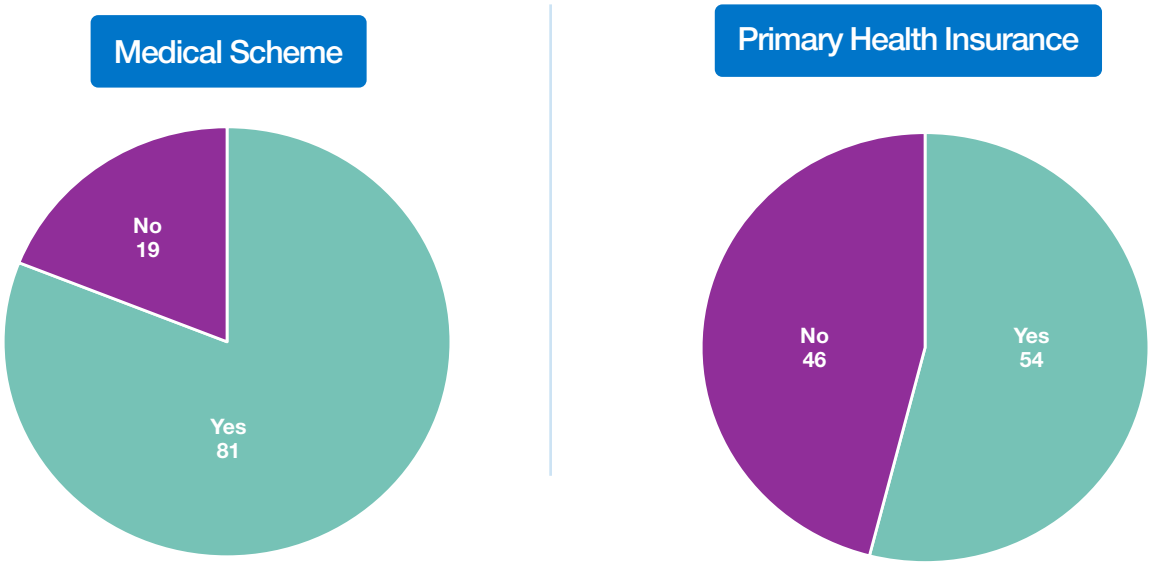
For several reasons, having Primary Health Insurance, even if it is basic coverage, is preferable to having no cover at all:

- **Access to Basic Healthcare Services:** With primary health insurance, individuals have access to essential healthcare services such as consultations with general practitioners, basic medications, and diagnostic tests. This ensures they can receive timely medical attention when needed, rather than delay or forgo care due to cost concerns.
- **Financial Protection:** Primary health insurance provides financial protection against unexpected medical expenses and prevents catastrophic healthcare costs that could lead to financial hardship.
- **Preventive Care and Early Detection:** Primary health insurance often covers preventive services such as vaccinations, screenings, and wellness checks. These measures are crucial for detecting health issues early and managing them effectively, potentially avoiding more serious and costly health problems in the future.
- **Reduced Out-of-Pocket Expenses:** While primary health insurance may require individuals to pay premiums and co-payments, these costs are typically lower than paying for healthcare services out of pocket.
- **Peace of Mind:** Knowing that they have health insurance coverage provides individuals with peace of mind and reduces anxiety about their ability to afford medical care in case of illness or injury. This can lead to better overall mental and emotional well-being.

While primary health insurance may not cover all healthcare needs or provide access to all healthcare providers (hospitalisation in a private facility), it still offers essential benefits and protections that can significantly improve an individual's ability to access timely and appropriate medical care. Therefore, having some form of health insurance coverage, even if it is basic, is generally considered a more desirable position than having no coverage at all.

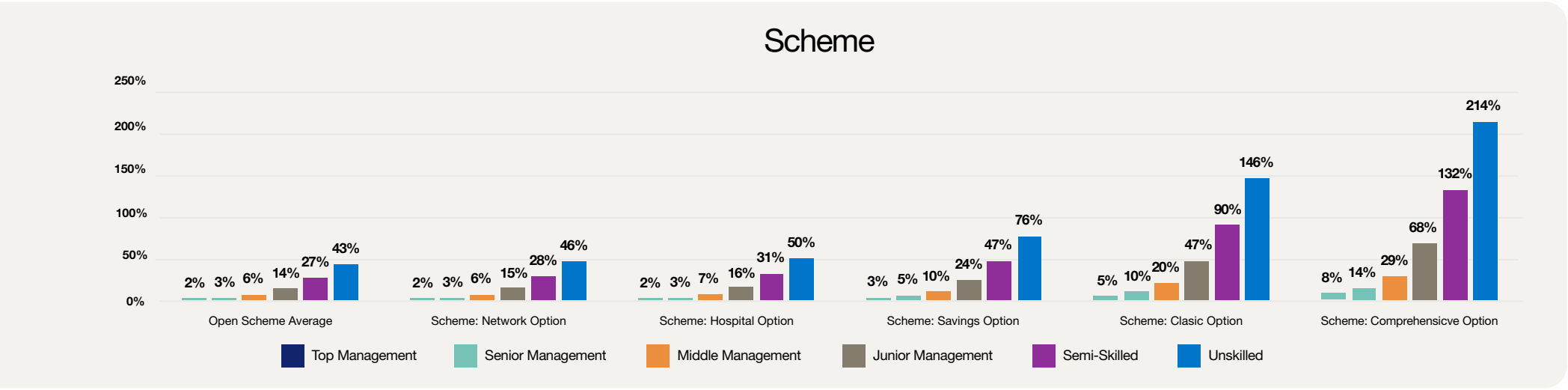
In line with the Simeka Health statistics, the Sanlam Benchmark 2024 consumer study highlighted that while medical scheme participation is high, trends show that employers are slowly starting to consider primary health insurance as a solution for their low-income and uncovered employees.

Medical Scheme & Health Insurance ownership



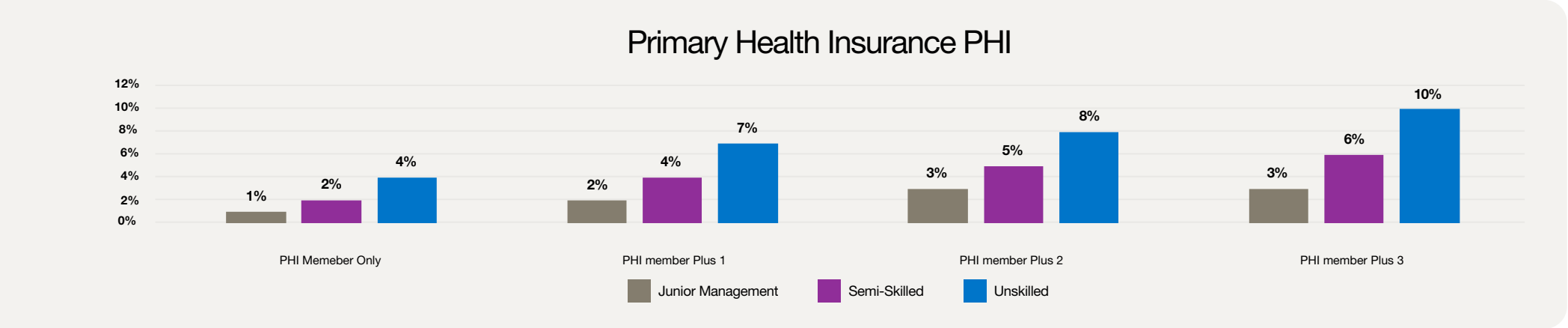
A case study done by Simeka Health using a family of four, looking at a range of salary bands for the different roles, highlights the reasons why semi-skilled and unskilled individuals would be worse off financially if they were to belong to a medical scheme compared to the same family participating in primary health insurance (Refer to Graph 8 on the next page).

Graph 8



It should be noted that these statistics do not consider the combined household income as Simeka Health only used data at its disposal.

Graph 9



As can be seen in Graph 9, by including PHI as a choice, affordable healthcare solutions become available and affordable for lower-income-earning employees. Employers who include Primary Health Insurance as part of their healthcare solution in the Simeka Health portfolio strictly ring-fence it for a certain employee category and apply a salary cap. This is geared to provide financial relief while ensuring access to quality care at a primary level for employees. Based on Simeka Health's recent engagements with clients, it can be concluded that affordability is the main driver of this trend, combined with offering access to quality care for uncovered employees.

However, employers and employees alike need to understand the advantages and disadvantages of opting for primary health insurance over medical schemes and ensure they make informed decisions. Table 3 below highlights the differences between medical schemes and primary health insurance. It is important to note that should an individual terminate participation in a medical scheme and buy primary health insurance, full underwriting will apply should he or she wish to change back to a medical scheme.

Table 3

	Medical scheme	Primary Health Insurance
Governed by	52m	Short/ Long Term insurance Act/ Demarcation regulations/FSCA/CMS
Benefits	**Includes PMB protection such as hospital and chronic benefits**	**Mainly day-to-day benefits. No PMB protection - benefits as defined in the product (Only accidental hospital benefits)**
Contract period	Typically benefits change every year but contract is ongoing	Typically benefits change every year but insurers can cancel contract
Employer tax	The company can deduct any subsidy as an expense	The company can deduct any subsidy as an expense
Member tax	**Medical scheme tax credits apply if earning above tax threshold Taxpayer R364, First dependent R364, Every subsequent**	**No tax benefit**
Payment	According to tariff - paid to provider	According to agreed contract - paid to provid-er/ member
Underwriting	Yes, if not part of group	Yes, if not part of group
Contribution basis	**Community rating**	**Risk-rated**
Special Dependents	**Subject to full underwriting**	**Not covered**

Call to action

Based on a 2024 Work-Life Wellness survey of 5 000+ employees

Diagram 1



By taking proactive steps, employers can assist their employees with access to affordable healthcare services and improve their overall health and well-being. Such initiatives could include offering comprehensive health insurance plans, providing wellness programmes, organising health screenings, promoting healthy lifestyle choices, and creating a supportive work environment. By providing access to affordable healthcare services, employers can help alleviate medical-related financial expenses, thereby reducing stress and promoting the overall well-being of their employees. This can lead to higher levels of employee satisfaction and morale, as they feel supported and valued by their employer.

Addressing the healthcare affordability challenge in South Africa requires a multi-faceted approach that considers not only the direct costs of care but also broader socio-economic factors that influence individuals' ability to access and utilise healthcare services. There are many options available for employers to consider improving their Employee Value Proposition and adding value to employees' livelihoods. By prioritising employee health and well-being through various initiatives, employers can create a more positive and supportive work environment that benefits employees and the company. Investing in employee health and well-being can lead to higher levels of satisfaction, productivity, and retention, ultimately contributing to the success and sustainability of the business.

The industry provides affordable, tailor-made healthcare solutions for individuals and businesses of all sizes. For example, Sanlam Umbrella Fund provides an integrated healthcare solution for its participating employer groups in enhancing the convergence of healthcare and wealth care.
All Sanlam Umbrella Fund members have access to free virtual nurse, doctor, and psychologist sessions via the Member Portal, as well as discounted Gap cover rates. Participating employers can also choose to make the Sanlam Staff Care Benefit available to their members, which further provides access to physical doctor consultations as well as a comprehensive Employee Assistance Programme.

Sanlam Umbrella Fund participants can also access the value-add health services below at an affordable price:

Diagram 2

Sanlam Gap
Preferential rates for Sanlam clients and companies.

Sanlam Staff care
- Virtual Doctor and Nurse
- Virtual Psychologist
- Physical Doctor and Nurse

Sanlam Occupational Health
- Occupational Health Services
- Incapacity/Absenteeism Management
- COIDA Management
- Emergency Medical Services

Sanlam Primary Health Insurance
Generous day-to-day benefits to keep your staff healthy.

Sanlam Wellness
- Wellness Assessments
- Corporate Nurse
- Executive Wellness
- Employee Assistance Programme
- Lifestyle Programme

Sanlam Clinics
- Occupational Health Clinics
- Primaryl Health Clinics
- Wellness Clinics

Fifty-six per cent of South African respondents in the Edelman Trust Barometer 2023 Survey believe the business sector needs to do more to support improved access to healthcare. Employers do have an obligation to ensure an appropriate healthcare strategy that will not only ensure broader access to private healthcare but also ensure the overall well-being of their employees.

Join the movement towards a more compassionate and sustainable work environment. Prioritise employee well-being today to watch your company thrive tomorrow!

Leveraging big data for the medical scheme industry



Vukosi Sambo
Head: Data Insights & AI
AfroCentric Group

Healthcare is a unique form of insurance compared to others in that it is the most transactional one of them all. Take Medscheme for example: we process well over 12 million claim lines monthly. This equates to over three claim lines per beneficiary for our 3,9 million lives. No other form of insurance has this level of volume and velocity per customer.



The second attribute to note is that events for each beneficiary are interlinked and need to be understood over time. Lastly, these events generally require servicing support, digital or otherwise, for the member's health journey. The combination of all these produces well over 25 million touchpoints monthly for us, with trillions of permutations and combinations. This data is both structured and unstructured in character. It is therefore appropriate to declare our organisation a big data entity. It satisfies the high volume, velocity and variety attributes for big data.

To help give context to the trillion combinations I am referring to, I use a Lego analogy. According to Lego statisticians, two 2x4 (eighth button) bricks render 24 possible shape combinations. Add a third brick and that number shoots up to 1 060. Add three more and the Lego magic really kicks in: just six (2x4) bricks make the lucky recipient into a near billionaire of playtime possibility, with an incredible 915 103 765 combinations at his fingertips. For us and our 25 million monthly touchpoints, this implies almost a billion possibilities per member every eight months on average. In the analogy, the core premise is that all possible combinations are useful and relevant. But this is not the case in most real-world implementation scenarios. The reality is that only a few of these combinations are of value. The job at hand is to filter out the junk combinations so that only those that are meaningful remain, allowing us to drive timely interventions.

What does all of this mean for the member? It is simply too complex to understand, let alone navigate optimally to achieve best care and service outcomes. What if I told you that artificial intelligence (AI) can help with most of this headache and guide us towards a future of healthcare delivery that is truly personalised and efficient? Let me unpack this for you.

The intelligence, speed, accuracy and explainability of AI

AI, through machine learning (ML), helps us identify and predict patterns, trends and relationships in large data sets. We are then able to use these predictions to recommend (autonomously or human augmented) the best course of action that will lead to desired outcomes. AI allows us to identify sequence of care and service events that are likely to follow a specific event. For example, take someone who has just been to the doctor and been diagnosed with a chronic condition. Now we know that this event needs to trigger registration into a programme, automate a chronic script and renewal requirements, enable the allocation of a case manager to support the member and encourage compliance with medication, further to the recommendation of chronic medication aligned to the member's plan option. In addition, to avoid possible out-of-pocket payments, rehabilitation at a network facility may be required if the condition causes movement problems. We are able to use AI to trigger intelligent coordination of care and service access for this member, and advise on how he or she can follow this path optimally. All of this is personalised to n=1.

This process can be built in a way that keeps on learning and improving, all by itself. Let me explain this by simplifying the operations of one of the most sophisticated ML algorithms called artificial neural networks. The beauty of this method lies in its ability to apply something called backpropagation to continually adjust characteristics in the prediction model based on errors it observes, until these errors become minimal and negligible. The outcome here is that the model self-improves towards very high accuracy with every care and service event. So, in the example given above, this model keeps learning about all possible paths that are triggered by a health or service event and gets better and better in respect of recommending the next best action.

Historically, these models have been seen as 'black boxes' that are hard to explain and consequently hard to defend. This has now changed significantly. Researchers at MIT have introduced a groundbreaking method that harnesses the power of AI models as interpreters. By automating the explanation of intricate neural networks, this innovative approach allows for a comprehensive understanding of each computation within complex models like GPT-4. Moreover, they have introduced the 'function interpretation and description' (FIND) benchmark, which sets a standard for assessing the accuracy and quality of explanations for real-world network components.



All these developments create an ideal environment to deliver care and service differently going forward. This future carries with it benefits that will improve the quality of our healthcare systems. Three main ones that will impact medical aid administrators positively are the following:

1 *Automated Health Advisory™ platform capability – Accessibility enabler*

The neural network model mentioned above is also one on which the famous generative AI (GenAI) is largely built. The ability to layer this capability for automated advisory for members results in both personalised and contextual timely communication. GenAI is simply a type of neural network that can generate new data similar to a given data set. The idea is to train two neural networks, a generator and a discriminator, in a game-like framework. The generator tries to fool the discriminator by generating data that is so realistic that the discriminator cannot tell it apart from real data. As the two networks play this game, they both improve over time. Eventually, the generator becomes so good that it can generate new data that is indistinguishable from the real data in the training data set.



2 *Cost-effective care and service outcomes*

Becoming more accurate with predicting next events and supporting this with automated advisory capability ensure optimal paths of care and service that are cost-effective (with a reduced out-of- pocket experience) and yield best health outcomes that are continually recommended and refined. This integration also provides useful insights into the relationship between care and service events. For example, we have identified that a certain segment of our membership that contributes to most of our service queries is the same segment that contributes to most of our healthcare expenditure. This insight allows us to find a holistic solution for our members' care and service needs.

3 *Behavioural modification – building members of the future*

Through integration with our communication engine and digital platforms, the AI-driven smart advisory enables real-time and relevant information for the member to make the next best decision. Over time this results in behavioural modification in respect of how members engage with a medical scheme product – one that is truly member-centric in that it puts them at the centre, is personalised, accessible and empowers them to take ownership; most importantly, it delivers value and well-being for them. A win-win for all stakeholders.

Conclusion

All this will require responsible implementation of AI that is governed by a comprehensive framework. It is advisable that this framework cover AI design principles, algorithm review, data management, risk and impact, transparency, explainability, accountability, ownership, systems development, compliance and monitoring. With these in place, healthcare organisations will be well positioned to deliver care and service experiences aligned with evolving member needs. These are experiences that elevate the role of administrators and clinicians to be qualitative and high touch. Healthcare needs AI because it needs the human touch.

Digital Health: Revolutionising universal health coverage and overcoming barriers



Aimée Wesso-Roberts
Functional Head: Lifestyle and Wellness Management
Medscheme

Universal health coverage (UHC) remains a critical global health objective, aiming to ensure that all individuals have access to essential health services without financial hardship. However, achieving UHC poses significant challenges, particularly in low- to mid-income countries (LMIC) where resources are limited and healthcare infrastructure is often inadequate.

This article explores the profound impact of digital health on universal health coverage, showcasing effective technologies, evidence of their contributions, and strategies to overcome key barriers to adoption.

The advent of digital health technologies has emerged as a transformative force in advancing UHC, offering innovative solutions to improve accessibility, affordability, and quality of care.

Accessibility

Digital health interventions have significantly expanded access to healthcare services. Telemedicine platforms, such as Sehat Kahani in Pakistan, connect patients with healthcare providers via video consultations, overcoming geographical barriers and enabling timely access to medical advice. Additionally, mobile health (mHealth) applications, like M-Tiba in Kenya, facilitate the delivery of essential health services and information to individuals in rural communities, enhancing healthcare accessibility.

Affordability

Traditional healthcare delivery models often impose financial burdens on individuals, especially in resource-constrained settings. Digital health solutions offer cost-effective alternatives, reducing healthcare expenditures and promoting financial inclusivity.
For example, electronic health records (EHRs) streamline administrative processes, minimising paperwork and reducing operational costs for healthcare facilities. Moreover, mHealth interventions for maternal and child health, such as MomConnect in South Africa and mMitra in India, deliver personalised health messages and support services to pregnant women and new mothers, promoting preventive care and reducing healthcare costs.

Quality of care

Digital health technologies improve the efficiency and effectiveness of healthcare delivery, leading to better clinical outcomes and patient experiences. The use of mHealth tools for tuberculosis (TB) treatment supervision has resulted in higher treatment completion rates and improved patient adherence. Similarly, telemedicine platforms have been shown to enhance diagnostic accuracy, reduce waiting periods, and increase patient satisfaction, contributing to improved quality of care in low-resource settings.



Effective digital health technologies encompass a diverse range of tools and platforms aimed at improving healthcare delivery and outcomes. To realise the potential of digital solutions in bringing the aspirations of UHC to fruition, each tool should be assessed and considered for its unique contribution.

Mobile Health (mHealth) applications, such as CommCare and HealthWorkerConnect, equip frontline healthcare workers with digital resources for data collection, decision support, and patient management. These apps facilitate community-based care delivery, strengthen health systems, and enhance health outcomes.

Telemedicine platforms provided by companies like Medici, TytoCare and Allegra, offer teleconsultation services, allowing patients to remotely access healthcare providers for diagnosis, treatment, and follow-up care. Telemedicine has proven highly beneficial in rural and remote areas, addressing disparities in healthcare access and ensuring equitable distribution of services.

Electronic Health Records (EHRs), exemplified by systems like OpenMRS and DHIS2, digitise patient health records, enabling efficient data management, interoperability, and decision support. In South Africa, CareConnect HIE aims to develop a unified care record to improve access to important patient information. EHR platforms improve care coordination, enable real-time disease outbreak monitoring, and support evidence-based policymaking to strengthen healthcare systems.

Wearable devices, such as the AliveCor FreeStyle Libre and Fitbit trackers, monitor vital signs, physical activity, and sleep patterns, empowering individuals to track their health metrics and manage chronic conditions proactively. Smart watches have also leveraged their technology to develop a number of health monitoring features. These wearables enable remote patient monitoring, facilitate early detection of health issues, and allow for personalised interventions to improve health outcomes.

Artificial Intelligence (AI) in diagnostics, represented by tools like IDx-DR for diabetic retinopathy screening and Zebra Medical Vision for radiological imaging analysis, assists healthcare providers in early disease detection and treatment planning. AI-driven diagnostic algorithms enhance accuracy, reduce healthcare costs, and improve patient outcomes, especially in resource-limited settings.

Digital health solutions have shown promising potential in advancing efforts to achieve Universal Health Coverage (UHC) through various means. Firstly, research indicates that these interventions lead to better health outcomes and help mitigate healthcare disparities. For instance, a randomised controlled trial conducted in Ghana demonstrated that the utilisation of mobile phone-based decision support tools among community health workers improved adherence to malaria treatment guidelines, resulting in reduced malaria-related morbidity and mortality rates.

Secondly, digital health technologies play a crucial role in enhancing access to healthcare services, especially in remote and underserved areas. Studies have shown that telemedicine consultations significantly decrease travel time and expenses for patients seeking specialty care in rural communities. Additionally, teleconsultations in low- and middle-income countries have been found to improve access to healthcare services, lower healthcare costs, and increase patient satisfaction.

Moreover, these solutions contribute to the strengthening of health systems by improving data management, healthcare delivery, and resource allocation. Notably, electronic immunisation registries have been effective in boosting vaccination coverage and reducing vaccine-preventable diseases in low-resource settings. Furthermore, the implementation of mHealth interventions for maternal and child health, such as the Mobile Alliance for Maternal Action (MAMA) programme, has been associated with improved antenatal care attendance, skilled birth attendance, and postnatal care utilisation across multiple countries.

While there is little doubt that digital healthcare solutions hold a lot of potential to support the achievement of UHC in LMIC, barriers to the adoption of these technologies remain. These include limited infrastructure and connectivity, regulatory and legal challenges and lastly but still highly influential, resistance to change. These barriers and suggested solutions to overcome them are discussed below:

Limited Infrastructure and connectivity

Regulatory and legal challenges

Fragmented regulatory frameworks, data privacy concerns, and unclear legal frameworks hinder the widespread adoption of digital health solutions. Policymakers should prioritise the development of clear, standardised regulations governing digital health, encompassing issues such as data privacy, medical licensing, and reimbursement policies. Collaboration between governments, industry stakeholders, and regulatory bodies is essential to harmonise policies across borders and create an enabling environment for innovation.

Resistance to change

Resistance to change among healthcare professionals, patients, and policymakers can impede the adoption and scale-up of digital health interventions. To address resistance to change, stakeholders must prioritise stakeholder engagement, capacity building, and targeted education initiatives to build digital health literacy and foster a culture of innovation within healthcare systems. Training programmes, continuing education initiatives, and peer-to-peer learning networks can equip healthcare workers with the skills and knowledge needed to effectively leverage digital technologies in their practice.



Digital health technologies hold immense promise for transforming UHC by improving accessibility, affordability, and quality of care, particularly where healthcare disparities are prevalent. Evidence from research studies and real-world implementations demonstrates the profound impact of digital health solutions on health outcomes, health system strengthening, and equitable access to healthcare services.

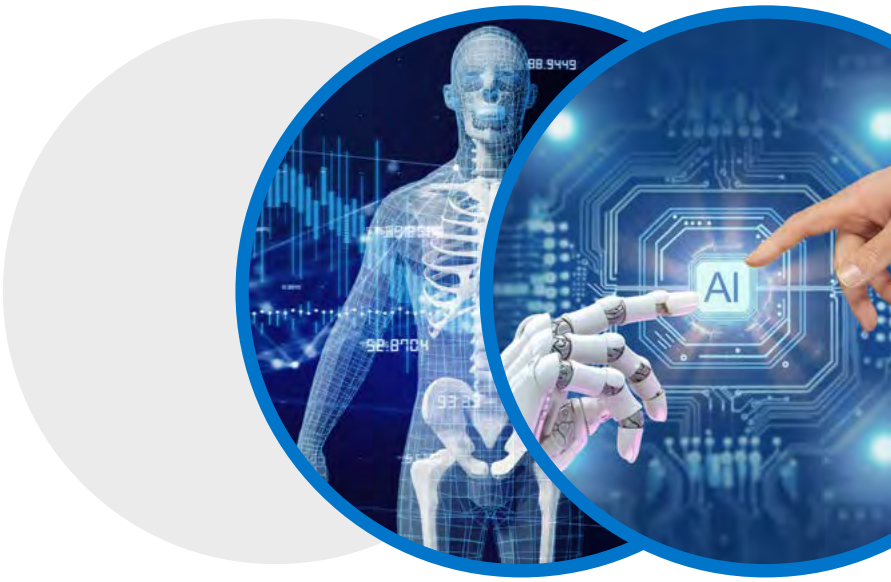
However, to realise the full potential of digital health, key barriers to adoption, including infrastructure limitations, regulatory challenges, and resistance to change, must be addressed through collaborative efforts and targeted interventions. By overcoming these barriers and embracing digital innovation, policymakers, healthcare providers, and technology stakeholders can drive progress towards equitable and inclusive healthcare systems that prioritise the well-being of all individuals.

What a world without fraud, waste and abuse could look like



Gerda Strydom
General Manager: Forensics
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If we have progressed so far in AI, medical technology, automation, virtual currency and biometrics in the past 20 years, just imagine where we will be 20 years from now. We can now realistically imagine a world where our children and their children are guaranteed to have quality and affordable healthcare.



It might be time to imagine a world without any fraud, waste or abuse …

To dream about this paradigm shift is healthy – it is important to rethink things occasionally. In a fast-evolving field like fraud, one must not get locked into fixed ways of addressing problems.

Imagine a world where every aspect of healthcare delivery, from billing practices to patient care, is characterised by transparency and honesty. Such a reality would revolutionise the way we perceive and experience healthcare. It would transform the way we act in every engagement, every day.



Imagine not having to possess professional scepticism, an attitude of a questioning mind and being alert to conditions that may indicate possible misstatement due to fraud or error. Such a world would be vastly different from the one we are currently experiencing, where fraud permeates various aspects of life – from healthcare, procurement, finance and commerce to politics and relationships.

Relationships, including patient-provider, provider-funder and funder-patient, would be built on trust, integrity and transparency. These vested-interest-relationships would ensure the best healthcare provided to South Africans.

Pressure, opportunity and rationalisation (the well-known fraud triangle) are conditions that increase the likelihood of fraud being committed. In a world characterised by transparency and honesty, the condition of rationalisation would not be present, directly reducing the likelihood of fraud, waste and abuse (FWA) creeping in.

Without the spectre of fraudulent medical claims or counterfeit medications, individuals could trust that the care they receive is both effective and genuine. This would lead to increased patient satisfaction and better health outcomes, as patients would be more likely to adhere to treatment plans and seek timely medical attention without fear of exploitation. Healthcare providers would operate in an environment free from the pressures of fraudulent billing practices or unnecessary procedures. They would be able to focus on delivering high-quality care, focused on outcomes and tailored to the individual needs of each patient, rather than being driven by financial incentives or the pursuit of fraudulent gains.

In addition to improving patient care, a healthcare system without fraud would lead to significant cost savings for individuals and society as a whole. The billions of rands lost annually to healthcare fraud, waste and abuse could be redirected towards improving access to care, investing in research, and addressing pressing health challenges. This would result in a more efficient and equitable allocation of healthcare resources, benefiting everyone regardless of their socioeconomic status.

Society demands real-time responses – if the risk of irregular claims was eliminated, the operational systems could be designed in such a way to make immediate payment as claims submitted could be trusted. There would be no need for exception management of claims highlighted in the adjudication phase or even forensic investigations to validate claims as accurate and payable. The burden on healthcare providers to validate claims in an audit would be eliminated and the burden on administrative processes would be reduced, resulting in efficient administration and reduced costs – resources that could be allocated to the evolving needs of patients and communities.

The impact of healthcare fraud extends beyond the borders of our country, affecting global health initiatives and humanitarian efforts. In regions plagued by healthcare fraud, international aid and development projects often fall short of their intended goals due to mismanagement and corruption.

It is challenging to provide a figure for how much healthcare fraud, waste, and abuse are costing South Africa. FWA encompasses a wide range of activities, including false claims, upcoding, inappropriate prescribing, and misuse of resources, making it difficult to quantify its financial impact accurately. It is, however, widely acknowledged that FWA imposes a significant financial burden on healthcare systems globally, including South Africa.

Fraud can only be realistically curbed when the industry unites against it. FWA prevention through proactive controls, industry collaboration, awareness among all stakeholders and powerful data analytics through AI is our best weapon right now. We should be directing significant investment into systems that proactively identify and flag potential fraud for further investigation, and investment in resources to analyse the data and engage with healthcare providers, members and other stakeholders. Achieving a healthcare system without fraud requires a concerted effort from all stakeholders, including policymakers, healthcare providers, insurers, and patients.

Envisioning a healthcare system without fraud offers a glimpse into a future where trust and integrity are paramount, and patient well-being is the top priority. While achieving this vision may be ambitious, the benefits for individuals, communities, and society as a whole would be transformative. By working together to combat healthcare fraud, we can build a healthcare system that is truly equitable, efficient, and compassionate – a universal healthcare for our nation.

The challenges of funding cancer innovation

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and
Danielle Oosthuizen
Senior Manager: Health Policy Development – Medicine
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This article delves into some of the challenges of cancer care, both in South Africa and globally, and the complexities of funding high-cost oncology innovation.

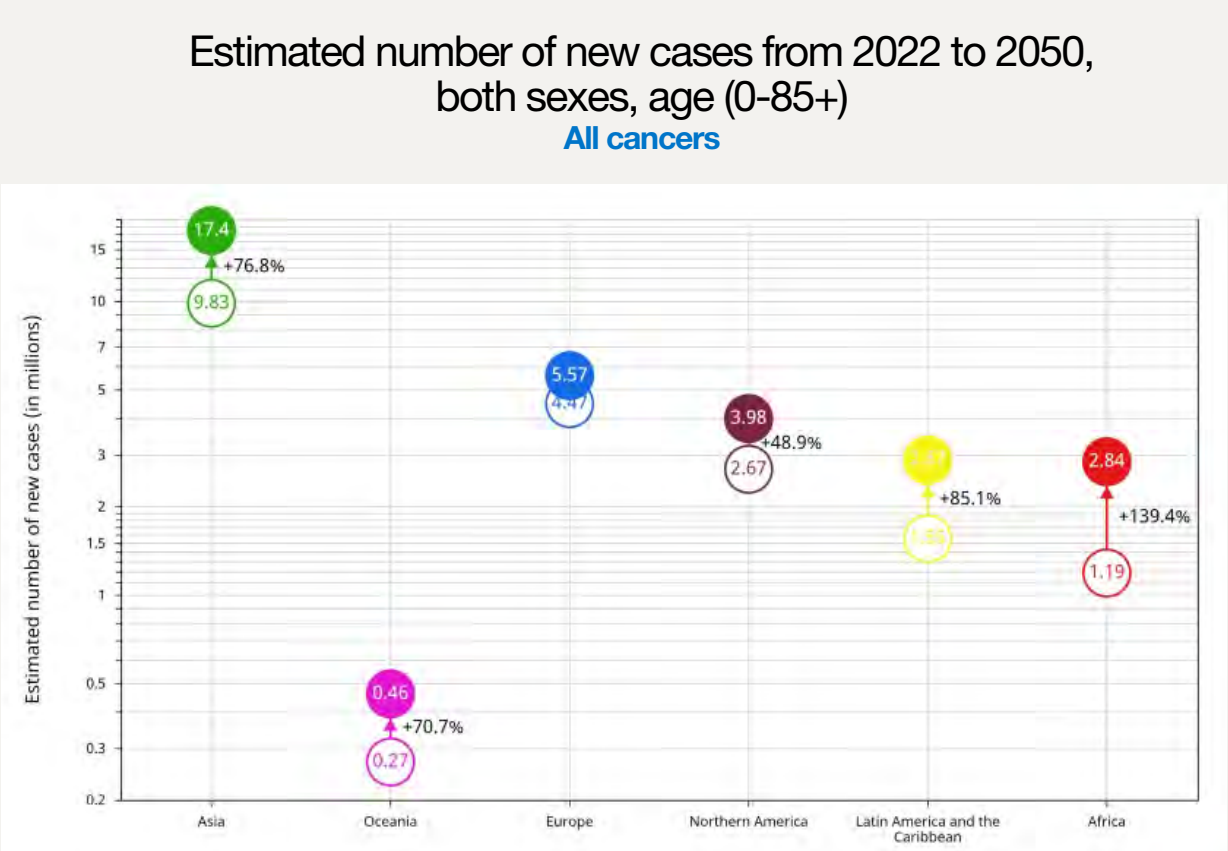
Cancer incidence and prevalence



Worldwide, cancer incidence and prevalence are increasing dramatically. In 2022, global statistics estimated nearly 20 million new cancer cases and approximately 10 million cancer-related deaths. Globally, 1 in 9 men and 1 in 12 women are expected to die from cancer. Cancer disproportionately affects people in low- and middle-income countries (LMICs), accounting for approximately 70% of worldwide cancer deaths (International Agency for Research on Cancer, World Health Organisation, 2024).

The World Health Organisation (WHO) prediction, based on current demographics, suggests that by 2050 the annual number of new cancer cases will surge to 35 million – a 75% increase compared to 2022. As illustrated in Figure 1 below, Africa's annual cancer incidence is expected to increase by almost 140% by 2050, with South Africa's incidence increasing by 94% (International Agency for Research on Cancer, World Health Organisation, 2024). This is due to a combination of population growth and ageing, economic status, lifestyle factors (such as smoking and diet), and environmental and genetic causes (Ipsos Global Oncology Centre of Expertise, 2023). The increase in cancer prevalence has been noted and reported across medical schemes and insurers in South Africa. Medscheme has seen prevalence increases varying from 40% to almost 170% over 5 years (2018–2023) across its client medical schemes, largely impacted by scheme demographics.

Figure 1: Comparative increase in new cancer cases from 2022 to 2050 per continent - *Cancer Tomorrow. IARC. https://gco.iarc.who.int/tomorrow*



Oncology innovation

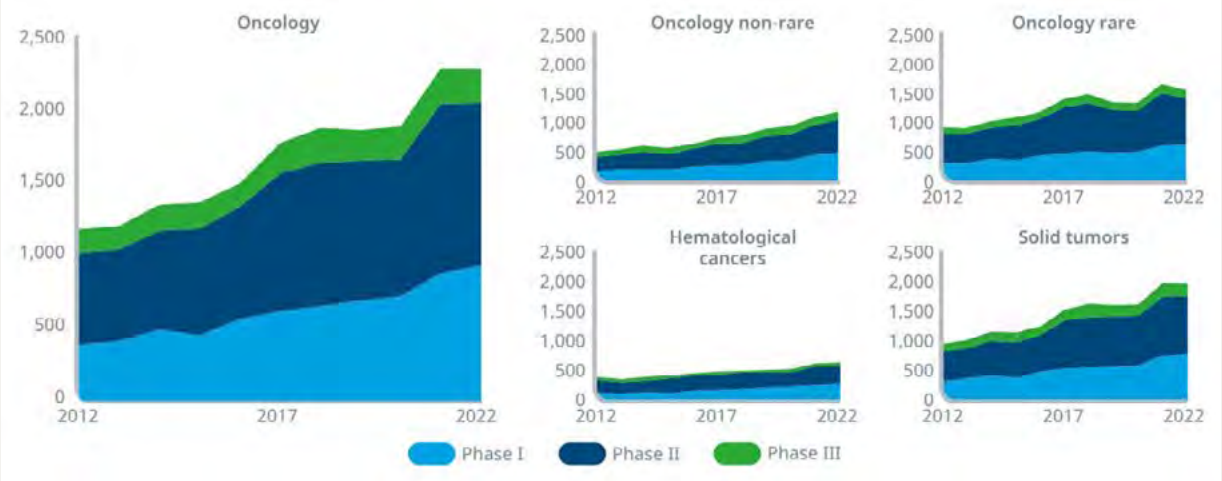
The economic burden of cancer treatment is also being impacted by earlier detection, due to exciting advancements in cancer detection technology. These advancements are contributing to improved detection rates; however, these come at considerable cost.
Examples of such detection technology, among others, include:

- The Cologuard DNA test, an FDA-approved prescription-based home screening kit for early detection of colorectal cancer, checks for cancer-associated DNA markers and/or blood in the stool. This test is not yet locally available; in the US it costs approximately US$700 per test.
- Liquid biopsy blood tests are being extensively investigated. These biopsies differ from traditional biopsies in that they do not require direct testing of the tumour tissue. Liquid biopsies analyse circulating tumour DNA (ctDNA) in the blood. Some of these can detect several different cancer types with one test, known as multi-cancer early detection (MCED) tests. One such test is the GRAIL Galleri test, which tests for 50 different types of cancers. This test is not yet FDA-approved, but it can be acquired by treating doctors in the USA at an approximate cost of US$950 per test.
- Artificial Intelligence (AI) is also anticipated to improve cancer detection. An example of this is the ability to analyse body scans where imaging experts, e.g. radiologists, are scarce.

Early detection results in earlier diagnosis, which drastically improves patient clinical outcomes (i.e. improved survival) and quality of life. However, the high cost of new detection technologies often limits access and exacerbates inequities.

Groundbreaking oncology innovation has led to and continues to lead to breakthroughs in the ways cancer is identified, understood and ultimately treated. Over the past 10 to 15 years, cancer treatment has evolved at a rapid rate with remarkable innovations that are transforming patient care. In 2023 alone, a total of 25 new oncology drugs with novel active substances were introduced, and 2 000 oncology trials on new cancer modalities commenced (IQVIA, 2024) (Refer Figure 2). It is anticipated that AI will contribute to accelerating clinical research by fast-tracking innovation and effectively matching patients to randomised controlled trials (RCTs) and data analysis.

Figure 2: Oncology clinical trial starts by year, 2013–2023



Source: Citeline Trialtrove, IQVIA Institute, Jan 2023.

Cancer treatment evolution

The following provides an overview of the progression of different types of cancer treatments:

Traditional Cancer Treatments

- **Surgery:** Surgical removal of cancerous tumours has been a cornerstone of treatment for many years and continues to be a fundamental curative approach to treatment. Over time, techniques have advanced to reduce invasiveness and enhance outcomes, such as laparoscopic and robotic surgery.
- **Radiation Therapy:** Traditional radiation therapy directs high-energy X-rays at cancer cells. Recent advancements in radiotherapy aim to enhance treatment effectiveness while minimising damage to healthy tissue. These improvements encompass techniques like Three-Dimensional Conformal Radiation Therapy (3D-CRT), Intensity-Modulated Radiation Therapy (IMRT), Stereotactic Radiotherapy (SRT), and brachytherapy.
- **Chemotherapy:** Historically, chemotherapy has played a pivotal role in cancer treatment. Many of these drugs have become widely genericised, making them cost-effective therapeutic options. Chemotherapy involves administering drugs that target rapidly dividing cancer cells. While it has proven successful in treating various cancer types, it also affects healthy cells, leading to side effects such as nausea, hair loss, and fatigue. More serious adverse effects may include organ damage (e.g. heart, kidney, nervous system) and compromised immune systems, making patients more prone to infection.

Anti-hormone therapies (hormonal agents)

- These are used in hormone-sensitive cancers, such as breast and prostate cancer. Anti-hormone therapy acts by blocking hormones (e.g. oestrogen, progesterone or testosterone) from stimulating cancer cell growth and division.

Targeted Therapy and Biologicals

- Unlike traditional chemotherapy, targeted therapy specifically targets cancerous cells only, by focusing on specific molecules and pathways involved in tumour growth and progression. Examples of such therapies include monoclonal antibodies (biological), small molecule inhibitors and immunotherapies.
- Precision Medicine represents a significant advancement in cancer treatment. By leveraging gene sequencing, it tailors therapies to a patient's unique genetic alterations. This personalised approach aims to identify the most effective treatments based on genetic markers. Within precision medicine, targeted therapies play a crucial role, as they specifically target molecules involved in cancer growth.
- Examples of targeted therapies include EGFR Inhibitors used in the treatment of certain lung cancers such as EGFR-positive non-small cell lung or advanced colon and rectal cancers, e.g. Erlotinib (Tarceva®) and cetuximab (Erbitux®).

Tissue-Agnostic Treatment

- Tissue-Agnostic treatment represents an innovative approach that looks beyond the tumour's origin (such as lung, breast, or prostate) and instead targets specific genetic alterations. Pembrolizumab (Keytruda®) is an example.

Immunotherapy

- Immunotherapy harnesses the body's own immune system to recognise and attack cancer cells. **Immune checkpoint inhibitors** (such as PD-1 and PD-L1 inhibitors) have significantly transformed cancer treatment, particularly for melanoma, lung, and kidney cancers. Examples include nivolumab (Opdivo®) and pembrolizumab (Keytruda®).
- **Cell-based therapy** modifies living cells to treat specific cancers by altering the immune response. CAR-T therapy takes a cancer patient's own immune cells (T-cells), genetically modifies them, and then infuses them back into the patient, where they then target and attack cancer cells effectively.
- **Gene therapy** modifies a patient's genes to treat cancer cells. It does this by correcting genetic abnormalities, thus disrupting cancer cell survival processes. This approach holds promise for slowing down or halting cancer progression



Generics and biosimilars

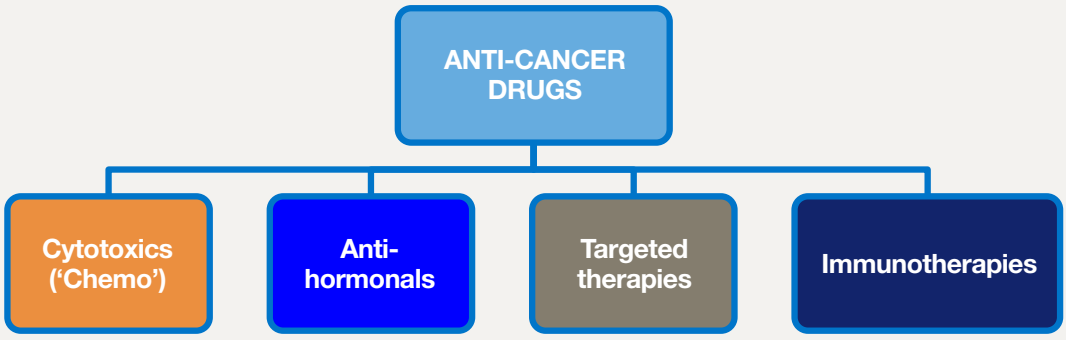
Generic drugs contain the same active pharmaceutical ingredient (API) as their brand-name counterparts. They are equivalent in dosage, strength, route of administration, quality, performance, and intended use. This equivalence allows for interchangeability at dispensing level. Many older chemotherapy drugs have been widely genericised, leading to increased pricing competition and significantly lower prices over time.

Biological drugs are large molecule medicines derived from living organisms. Unlike small-molecule generics, they do not have direct generic equivalents. Instead, they may have **biosimilar equivalents**. Biosimilars closely resemble the originator medicine in structure and function but are not exact copies.

The registration of biosimilars in South Africa has introduced welcomed pricing competition, reduced the cost of therapy, and improved access. However, newer biologicals remain patent-protected and expensive, limiting accessibility.

In South Africa, biosimilar drugs are currently not considered interchangeable according to SAHPRA regulations. Switching between biosimilars would require an updated prescription from treating providers.
In the USA, the FDA allows for interchangeability of certain biologic biosimilars based on specific trial data related to biologic switching. (American Cancer Society, 2024).

Figure 3: High-level classification of anti-cancer drugs



The evolution of cancer treatment has shifted from a generic, one-size-fits-all approach to more personalised and targeted therapies, thus yielding better therapeutic outcomes. Advances have moved beyond traditional drugs to more sophisticated innovative technologies, including ongoing research into cancer vaccines, which hold promise as potential curative treatments.

However, as exciting as these innovative therapies sound, they come at a substantial cost, which is often unaffordable. Focusing on just one such medicine example in the breast cancer setting, Keytruda® (pembrolizumab) comes at an annual medicine cost of almost R1,5 million.

CAR-T therapy costs between US$500 and US$1000 per treatment in the USA. It is not yet available in South Africa due to regulatory limitations, and prohibitive costs.

As the number of cancer patients continues to rise, so do the costs associated with improved technology and medication. Unfortunately, the affordability of cancer care is becoming a significant concern, leading to health inequities and financial strain. Medical schemes encounter numerous obstacles, such as expanded Prescribed Minimum Benefits (PMBs) coverage requirements, lack of centralised Health Technology Assessment (HTA), a fragmented healthcare system and legislated Single Exit Price (SEP) for medicine, preventing negotiation and pricing flexibility. Addressing all of these challenges requires innovative approaches to oncology benefit design and alternative funding methods.

Oncology benefit design

Most medical schemes have an oncology benefit that covers the cost of diagnosis, active cancer treatment (drug therapy, radiotherapy and/or brachytherapy) and post-active care. To access this benefit, patients are required to register on the scheme's oncology programme. The benefit may vary based on the plan type/option and associated individual Scheme Rules.

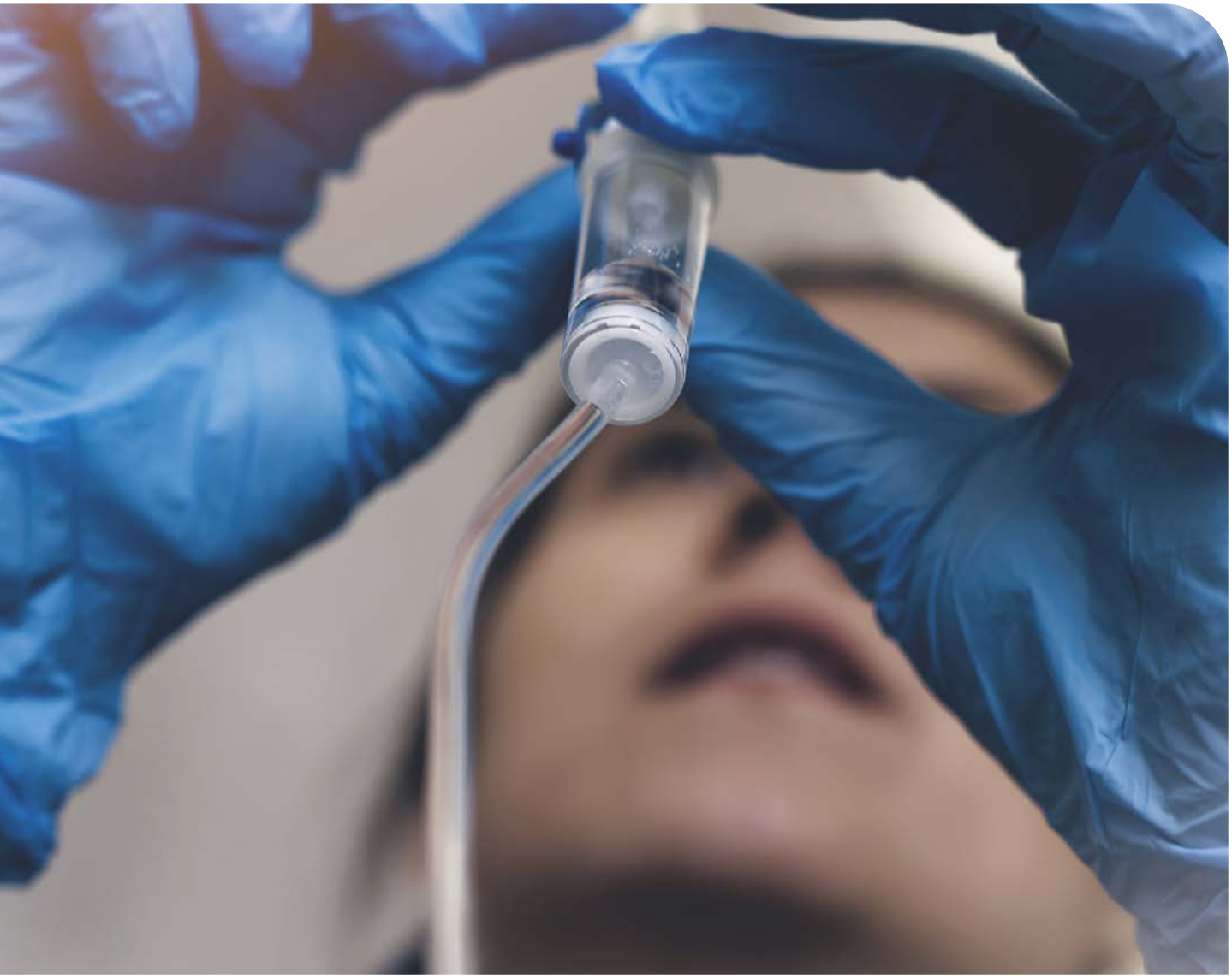
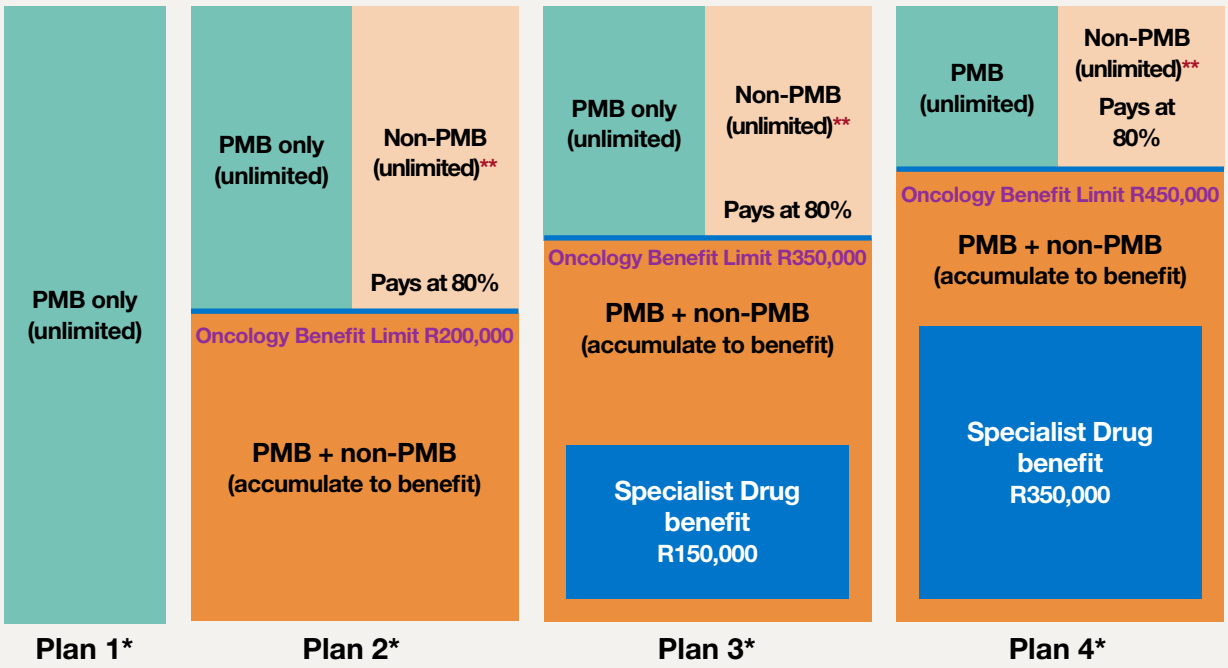


Figure 4 is a graphical representation of oncology benefits across a scheme's different plans. It illustrates the following:

- Lower-Tier Plans:
  - These plans typically cover only Prescribed Minimum Benefits (PMBs).
  - High-cost specialised drugs (such as targeted therapy and immunotherapy) are usually not funded unless they fall under PMB level of care.
- Mid-Range Plan Types:
  - Mid-range plans have an oncology benefit limit. This limit caters to both PMB and non-PMB claims.
  - Once the oncology limit is depleted:
    - PMB claims continue to be fully covered.
    - Non-PMB oncology claims above the limit may be self-funded or referred to the scheme for discretionary/ex gratia funding. Some schemes may opt to partially fund non-PMB claims above the limit (e.g. covering 80% of non-PMB costs), allowing members to access non-PMB treatments with a co-payment.
  - These plans may or may not include a specialised drug benefit for higher-cost targeted therapies. If such a benefit exists, it is capped as a sub-limit of the overall oncology benefit. Once exhausted, specialised drugs are usually not funded (unless deemed PMB entitlement).
- High-Tier Level Plans:
  - High-tier plans resemble mid-range plans in structure.
  - However, they offer broader coverage and higher oncology benefit limits.
  - Additionally, they provide an extra sub-limit for specialised drug benefits.

In addition, some schemes have contracted oncologist networks (designated service providers (DSPs)) for the delivery of oncology services. A co-payment may apply for involuntary use of non-network providers.

Figure 4: Example of a scheme's oncology benefit design



* Oncologist network may apply. A co-payment may apply if a non-network oncologist is used.
** Many schemes do not fund non-PMB claims above the oncology benefit limit.

The challenge with funding the innovative high-cost therapies is that medical schemes cannot afford to cover the full cost of these drugs. The question is how can we bridge this funding gap?

Alternative approaches to funding

Locally and internationally, various innovative programmes and funding models are emerging alongside traditional funding mechanisms. Their objective is to enhance affordability and accessibility to innovative oncology treatments. These initiatives vary based on regional, country-specific, and health system factors.
IQVIA's White Paper on Innovative Funding Models for Treatment of Cancer showcases 36 case studies of innovations to secure funding and/or to deploy funding. These include strategic partnerships to pool funding, government interventions, voluntary contributions from patients, debt financing instruments, insurance products, means-based patient access programmes, charity funding, results-based financing, crowd-based platforms, retail micro-insurance policies and saving schemes (IQVIA, 2019). Some of these have been adopted locally.
In South Africa, SEP legislation is a significant limitation to improving private sector access to innovative medicine, as price negotiation with pharmaceutical companies and discounting of medication is not permitted. Due to the risk of parallel imports, pharmaceutical companies have limited flexibility in reducing the transparent SEP. There are ongoing discussions with key industry stakeholders to address these challenges.

Additionally, the Alternate Reimbursement Model (ARM) Steering Committee (SteerCo) has been established as a South African industry-level initiative, which brings together key stakeholders from the healthcare sector, including pharmaceutical companies, funders, providers, patient advocacy groups, and administrators. The main objective of this ARM SteerCo is to enhance equitable and affordable patient access to innovative medicines. It aims to achieve this by developing a framework for introducing medicine ARMs in South Africa.
Additional local initiatives include:

- ## Patient Access Programmes (PAPs)

  The objective of PAPs is to reduce financial barriers and ensure timely access to effective, high-quality medications.

  The Access to Innovative Care Foundation (AICF) is a key contributor to this mechanism of funding in that it is a non-profit organisation dedicated to improving patient access to innovative and high-cost care. Their mission is to alleviate the burden by facilitating access to these treatments through offering co-payment assistance to members. AICF receives third-party funding from benefactors, including pharmaceutical companies. When a funder approves partial payment for medication, AICF steps in to assist with co-payments for members who cannot afford them and lack GAP cover. Members or providers can apply for third-party funding through AICF, based on specific criteria. Funder authorisation for therapy still adheres to existing policy and clinical criteria.

- ## Value-based agreements (VBAs)

  Value-Based Agreements (VBAs) also known as ARMs, are models initiated by pharmaceutical companies. Their purpose is to ensure patient access while minimising funder's uncertainty relating to the value of the treatment being offered. This is achieved by linking access, reimbursement, or pricing to real-world clinical benefits or other agreed-upon terms.



According to Ti Hwei How, VP of International Oncology at AstraZeneca Singapore, there are 3 agreement types:

- *Outcomes-based agreements:* link payment to actual patient outcomes of treatment ('real-world evidence') with specific medicine;
- *Financial-based agreements:* link payment to utilisation to reflect value; and
- *Service-based agreements:* include value of an accompanying service to support patient access and/or healthcare system delivery to improve patient outcomes.

- **Insurance products**

Many of the GAP insurers offer products that include third-party funding for partially funded medicines, including innovative oncology medication. These benefits are only available to members if the medication is part-funded by the medical scheme. As an example, Sanlam Gap provides cover for a list of scheme-approved innovative oncology medications at a cover of 25% of total cost of medicine to a maximum of R13 780 per dose. Some of the GAP products also include lump-sum payouts.

In addition, dread disease policies may assist with access to innovative drugs.

- **Self funding**

There is a growing trend towards members requesting partial payment up to the benefit limit for specialised or high-cost drugs. In these cases, patients choose to self-fund the remaining cost difference out of their own pocket.



Conclusion

Increasing cancer incidence and prevalence, combined with the accelerated innovation of high-cost testing and treatment, pose funding challenges that are both universal and unavoidable. Funding of this high-cost innovation by medical schemes alone is unsustainable. Insurers need to strike a balance between affordability and comprehensive coverage.

An innovative and collaborative approach to funding across diverse stakeholders is required to improve patient care while minimising financial hardship. These win-win partnerships are critical to ensure both the sustainability and the scalability of access to innovative cancer care. In South Africa, some of these initiatives are already in progress, but will need to expand and innovate to enable equitable access in the future.

As the landscape evolves, insurers will need to stay informed, adapt their offerings, and prioritise the well-being of policyholders.

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