



**labour**

Department:  
Labour  
REPUBLIC OF SOUTH AFRICA



# **PRESENTATION TO THE PORTFOLIO COMMITTEE**

**10 SEPTEMBER 2010**

## **UNEMPLOYMENT INSURANCE FUND**



- Overview of the Unemployment Insurance Fund
  - Legislative Mandate
  - Vision and Mission
  - Funding Model
  - Governance Leadership and Management
  - Institutional Spread
  - Governance set-up of the Fund
  - Corporate Governance
- 2009/10 - Performance Information
  - Operations
  - Human Resources Management
  - Risk Management
  - Communications and Marketing
  - Financial
  - Social Security Reform
  - Response to economic meltdown
- Budget Reporting
- Highlights for the year
- Conclusion

# Overview of the Fund - Legislative Mandate

## Unemployment Insurance Act, 2001 (Act 63 of 2001) and the Unemployment Contributions Act, 2002 (Act 4 of 2002)

The Unemployment Insurance Fund (UIF) was established in terms of section 4(1) of the Unemployment Insurance Act, 2001 (Act 63 of 2001) as amended.

The Act empowers the UIF to register all employers and employees in South Africa.

The Unemployment Contributions Act, 2002 (Act 4 of 2002) empowers the SARS Commissioner to collect monthly contributions from both employers and workers.

Section 9 of the Unemployment Contributions Act, empowers the Unemployment Insurance Commissioner to collect contributions from all those employers who are below the tax threshold.

These contributions are utilised to pay benefits and any other expenditure reasonably incurred relating to the application of this Act.

## Vision

The Unemployment Insurance Fund strives to contribute to the alleviation of poverty in South Africa by providing effective short-term unemployment insurance to all workers who qualify for unemployment and related benefits.

## Mission

The Unemployment Insurance Fund sees its mission as:

- ☐ Rendering an effective and accessible service to all stakeholders.
- ☐ Being a sustainable organisation with sufficient reserves.
- ☐ Administering the Fund professionally.

# Overview of the Fund - Funding Model

- UIF receives a 2% payroll levy (Contribution revenue), 1% from the employer and 1% from the employee.
- Contributions revenue is collected by SARS from employers registered in terms of the Contribution Act and UIF from employers below the threshold.
- The payment of unemployment insurance benefits and the administrative running of the Fund is financed from the contributions, and investment returns collected.
- In terms of section 7 of the Unemployment Insurance Act the Public Investment Corporation Limited (PIC) invests funds on behalf of the Fund and acts as the Fund asset managers based on an approved mandate
- In terms of section 10 of the Unemployment Insurance Act the State remains the guarantor for the Fund.

# Governance Leadership and Management

The Minister of Labour is the Executive Authority of the Unemployment Insurance Fund.

The Director-General (DG) of the Department of Labour is the Accounting Authority of the Unemployment Insurance Fund. The Fund is administered by the Unemployment Insurance Commissioner with delegated powers from the DG.

The Minister of Labour has established the Unemployment Insurance Board in terms of section 47 of the Unemployment Insurance Act, 2001. The Board consists of three members from each of organised business, organised labour, community constituencies and government. Board members are appointed for a period of three years.

The Unemployment Insurance Board is an advisory board.

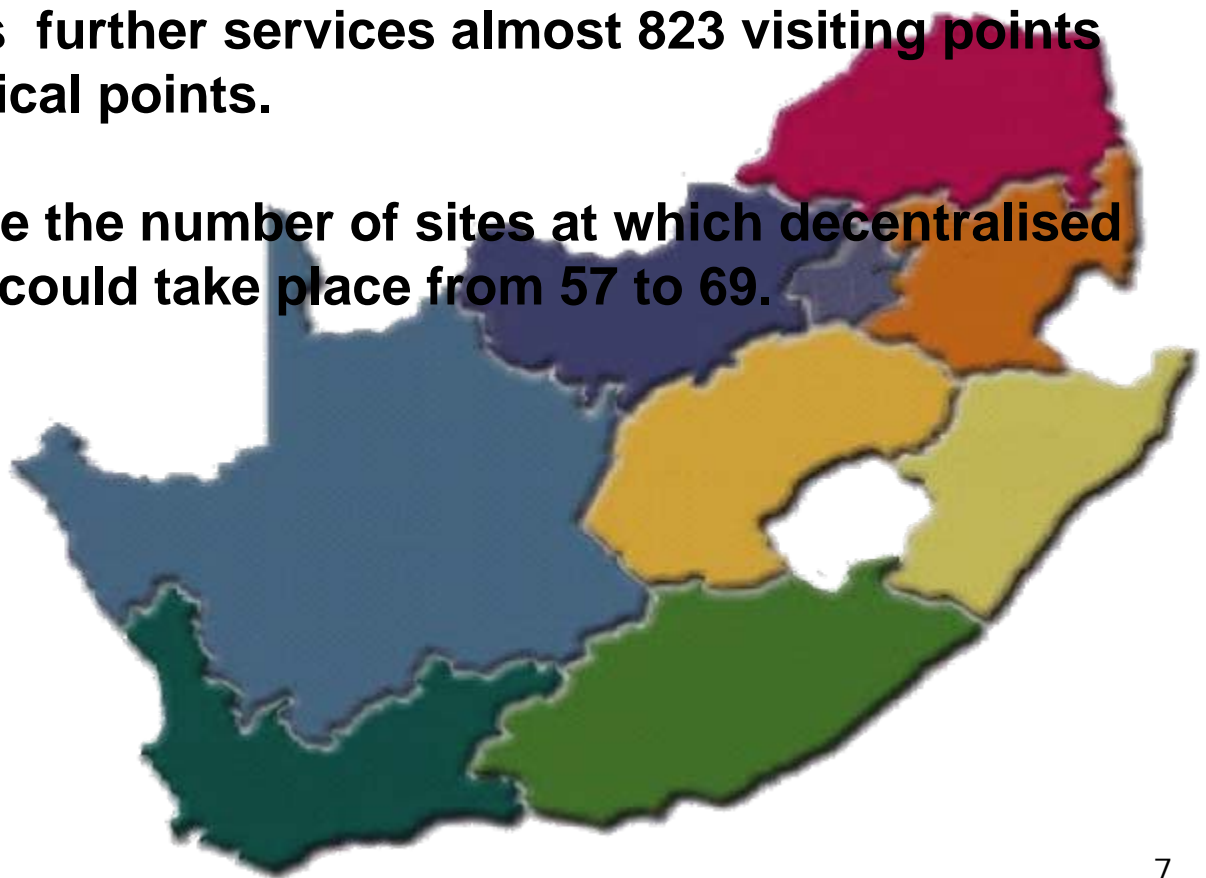


## 9 DoL Provincial Offices

**125 Labour centres that members of the public can assess for UIF benefits.**

**These Labour centres further services almost 823 visiting points within their geographical points.**

**The Fund has increase the number of sites at which decentralised processing of claims could take place from 57 to 69.**



## Overview of the Fund - Institutional Spread

DoL/UIF operates in  
9 Provincial Offices

Nationally provides  
service in 125  
Labour Centres. We  
have a total of 69  
Labour Centres with  
processing  
functions. Refer to  
table

Province	Processing Offices
G South	Benoni, Germiston, Johannesburg, Kempton Park, Soweto
G North	Ga-Rankuwa, Krugersdorp, Mamelodi, Pretoria, Soshanguve
KZN	Durban, Newcastle, Pietermaritzburg, Pinetown, Port Shepstone, Prospecton, Richards Bay, Stanger, Ulundi, Verulam
E Cape	Aliwal North, Butterworth, East London, Graaff Reinet, King Williams Town, Lusikisiki, Mount Ayliff, Mthatha, Port Elizabeth, Queenstown, Uitenhage
W Cape	Beaufort West, Bellville, Cape Town, Mitchell's Plain, Mossel Bay, Somerset West, George
N Cape	Calvina, De Aar, Kimberley, Kuruma, Postmasburg, Springbok, Upington
Mpumalanga	Barberton, Bethal, Groblersdal, Kwamhlanga, Lydenburg, Middelburg, Nelspruit, Piet Retief, Sabie, Secunda, Standerton, Witbank
Limpopo	Giyani, Lebogakgomo, Mokopane, Polokwane, Thohoyandou, Tzaneen
N West	Klerksdorp, Mafikeng, Mmabatho, Rustenburg
F State	Bloemfontein, Welkom



# Governance set-up of the Fund

Structures	No. of sittings	Critical resolutions
Unemployment Insurance Board	10	Recommend new amendments to UI Act; strategic plan, budget and annual financial statements. Approved most recommendations from its sub-committees.
■ Sub-committee : Financial and risk advisory committee	5	Reviewed financial, operational, risk information of the Fund including other support.
■ Sub-committee : Investment committee	4	Review PIC investment mandates, performance and exposures. Also, recommended investment of R 2 billion to IDC.
■ Sub-committee : National Appeals committee	3	Considered a total of 350 appeals and adjudicate on those.
Audit Committee	4	Committee advises the Fund to put more efforts in addressing performance information; and expenditure claims from DoL.

- In 2009/10 the Fund received an unqualified audit report from the Office of the Auditor General. This is the fifth year in succession from 2005/06. Management and staff remain committed to ensuring that the control environment of the Fund is effective and constantly being improved.
- Compliance to legislations has been the cornerstone of our operations and the Fund continues to strive for improved compliance.
- The Fund worked closely with the Executive Authority and the UI Board in addressing the strategic intent and challenges of the Fund.

# Operations - Benefit Types

**Unemployment  
benefits**



**Maternity  
benefits**



**Illness benefits**



**Adoption  
benefits**



**Benefits for  
dependants**

# Operational Performance

- The Fund has 1 287 mil employers ( commercial, domestic and taxi) registered on the system as compared to 1 239 mil in 2008/09.
- The Taxi sector has been slow in registering with the Fund. However, as at 31 March 2010, more than 6000 taxi employers had registered with the Fund.

## Classification of employers

	<b>31 March 2010</b>	<b>31 March 2009</b>	<b>% Change</b>	<b>Comment</b>
Commercial	689 905	657 859	4,87%	↑
Domestic	591 045	575 985	2,61%	↑
Taxi Industry	6 169	5 516	11,84%	↑
<b>Total</b>	<b>1 287 mil</b>	<b>1 239 mil</b>	<b>3,85%</b>	↑

# Operational Performance

- The Fund has 7 757 mil employees ( commercial, domestic and taxi) registered on the system as compared to 7 590 mil in 2008/9.

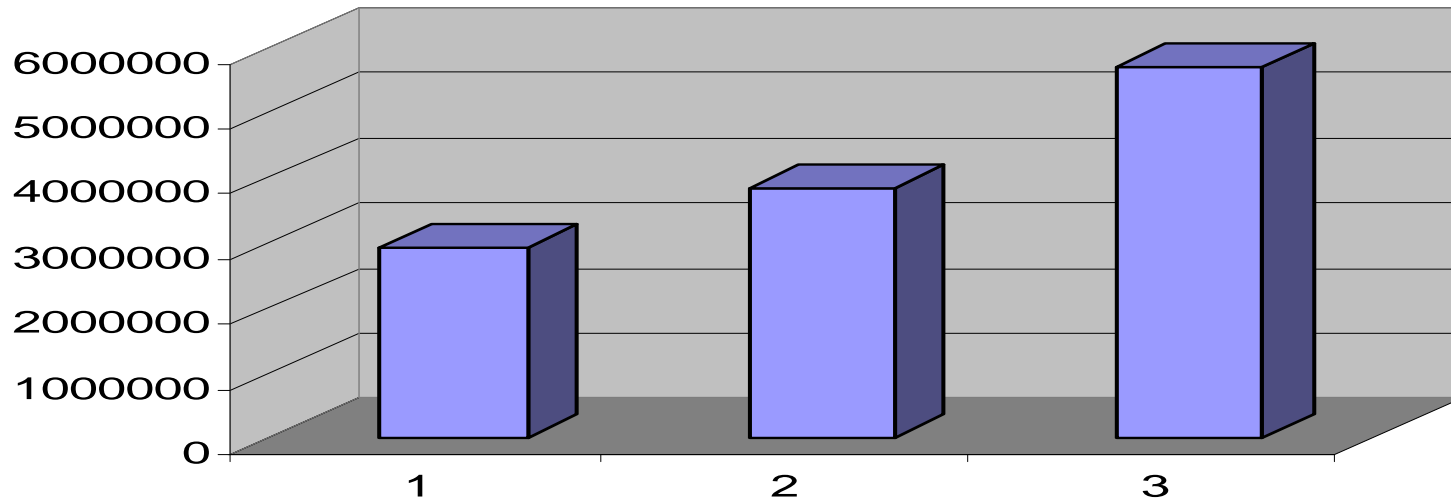
## Classification of employees

	<b>31 March 2010</b>	<b>31 March 2009</b>	<b>% Change</b>	<b>Comment</b>
Commercial	7 109 463	6 947 158	2,34%	↑
Domestic	642 007	637 987	0,63%	↑
Taxi Industry	5 771	5 643	2,27%	↑
<b>Total</b>	<b>7 757 241</b>	<b>7 590 788</b>	<b>2,19%</b>	<b>↑</b>

- The rapid deterioration in global financial markets and an increase in unemployment in South Africa saw a growing demand for unemployment benefits. The Fund paid an amount of R 5.7 billion in benefits against the R 3.8 billion of last year an increase of 48%
- The Fund received 801 110 claims which is an increase of almost 173 866 more claims than in 2009/2010. The increase was largely due to the adverse economic conditions that were experienced.



# More Benefit payments



	31 March 08 (R)	31 March 09 (R)	31 March 10 (R)
Unemployment	2,030,877	2,834,157	4 536 397
Illness	187,381	211,639	231 834
Maternity/Adoption	460,907	537,574	624 493
Dependants	242,295	263,866	317 264
<b>Total Paid</b>	<b>2,921,460</b>	<b>3,847,236</b>	<b>5 709 988</b>

# No. of recipients/clients who received benefits

No. of recipients in each category	2009/2010	2008/2009	% Change	Comment
Unemployment	628 595	474,793	32.39%	↑
Illness	24 720	25,648	- 3.6%	↓
Maternity/Adoption	104 529	94,336	10.80%	↑
Dependants	21 760	15,959	36.35%	↑
Total Paid	779 604	610,736	27.65%	↑

# Claims Approval Rate

Region	Created	Approved	Approval rate	Rejected	Rejection rate
Eastern cape	70679	69904	98.9%	761	1.1%
Free State	38258	37971	99%	287	1%
Gauteng North	59289	59007	99.5%	282	0.5%
Gauteng South	174460	171882	98.5%	2578	1.5%
Kwa-Zulu Natal	146096	143941	98.5%	2155	1.5%
Limpopo	48721	44773	91.9%	3948	8.1%
Mpumalanga	64223	58880	91.7%	5343	8.3%
North West	37947	37356	98.5%	564	1.5%
Northern Cape	20693	20176	97%	596	3%
Western Cape	140744	135714	96.5%	4992	3.5%
<b>Grand Total</b>	<b>801110</b>	<b>779604</b>	<b>97.3%</b>	<b>21506</b>	<b>2.7%</b>

# Number of payments & Value per region

Province	Payments	Number of payments to beneficiaries
Pretoria	532,121,168.30	219,049
Johannesburg	1,419,568,486.85	523,452
Durban	1,006,604,863.21	492,838
East London	489,589,044.07	179,350
Cape Town	969,867,751.67	404,469
Bloemfontein	259,870,744.40	130,546
Kimberley	121,214,202.69	59,212
Mpumalanga	375,677,182.37	193,484
Polokwane	254,933,346.02	130,253
Mmabatho	281,993,013.81	142,120
adjustments	-1,452,637.12	
	<b>5,709,987,166.27</b>	<b>2,474,773</b>

# Human Resource Management

- UIF Head Office staff establishment consists of 450 posts. 401 (89%) of the posts are filled and 49 (11%) are vacant posts. Out of the 89% of the filled posts, 58% are females and 42% are males.

## Employment and vacancies by salary band for the year ended 31 March 2010

Salary Band	Establishment	Number of Employees	Vacant Posts	Vacancy Rate
Level 3-6	270	245	25	9.25
Level 7-8	97	81	16	16.5
Level 9-12	73	65	8	10.9
Professionals (13-15)	10	10	0	0
<b>Total</b>	<b>450</b>	<b>401</b>	<b>49</b>	<b>10.89</b>

- The Fund values its human capital and strives to continuously develop its staff. In 2009/10, the Fund :
  - Trained officials on more than thirty (30) training initiatives/courses.
  - Nine (9) officials were enrolled and trained on ABET programme
  - Nineteen (19) learners participated in learnership programme
  - Fourteen (14) officials were awarded bursaries



# Human Resource Management

## Appointments, promotions and terminations for the year ended 31 March 2010

Salary Band	Appointments	Promotions	Terminations
Level 3-6	26	13	8
Level 7-8	4	7	3
Level 9-12	4	6	2
Professionals (13 – 15)	0	1	0
<b>TOTALS</b>	<b>34</b>	<b>27</b>	<b>13</b>

## Reasons why staff left Department during the year ended 31 March 2010

Description	Number
<b>Resignation</b>	6
<b>Resignation to contract</b>	0
<b>Death</b>	0
<b>Retirement</b>	4
<b>Misconduct</b>	0
<b>Severance Package</b>	3
<b>Total</b>	<b>13</b>

## Misconduct and Discipline for the year ended 31 March 2010

OUTCOME OF DISCIPLINARY HEARINGS	NUMBER
Verbal warning	2
Written warning	2
Final written warning	3
Not guilty	1
Case withdrawn	0
Dismissal	0
Pending cases	0
<b>TOTAL</b>	<b>8</b>

# Risk Management

- The Fund revised its Risk Management Strategy, Policy and the Fraud Prevention Plan to address weaknesses identified.
- In 2009/10, the Fund reviewed its strategic and operational risks and results show that controls are improving in comparisons to previous years. The results from the risk assessment were also used by the Internal Audit Division to develop an audit plan.
- Risk monitoring was covered and the results indicated that most of the risks are mitigated through improved internal control systems.
- In support of risk management initiatives, the Fund established committees i.e.
  - Policy Committee
  - Security and Occupational Health and Safety Committee, etc

# Communications and Marketing

- The Fund participated in a number of media related events to inform its clients about its services and offerings in light of the huge number of jobs that were lost in the South African economy. The Fund's proactive approach to media engagement resulted in the Fund featuring prominently in different current affairs and news driven shows in both radio and television.
- The Fund participated in stakeholder relations activities with a view to strengthening relations with its key stakeholders and to impress upon issues of compliance with the UIF act.
- Apart from the advertisements that the Fund placed in a number of newspapers and magazines. The Fund's three month communication and marketing campaign has seen a number of radio and television advertisements currently being aired on media. A visit to various taxi ranks around the country to improve compliance within the taxi industry is currently underway.

# Financial Performance

- Despite the economic downturn, the Fund managed to collect R 10.75 billion compared to R10.32 billion (2008/09) a 4% increase.
- Investment revenue increased from R3.34 billion (2008/09) to R3.45 billion a 3% increase.
- Benefit payments increased from R3.84 billion in (2008/9) to R5.70 billion a 48% increase.
- Surplus decreased from R9.08 billion in (2008/09) to R6.85 billion due to the increased benefit payments.
- Total investment portfolio increased by 21% from R36.02 billion (2008/09) to R43.73 billion.

# Summary of financial performance

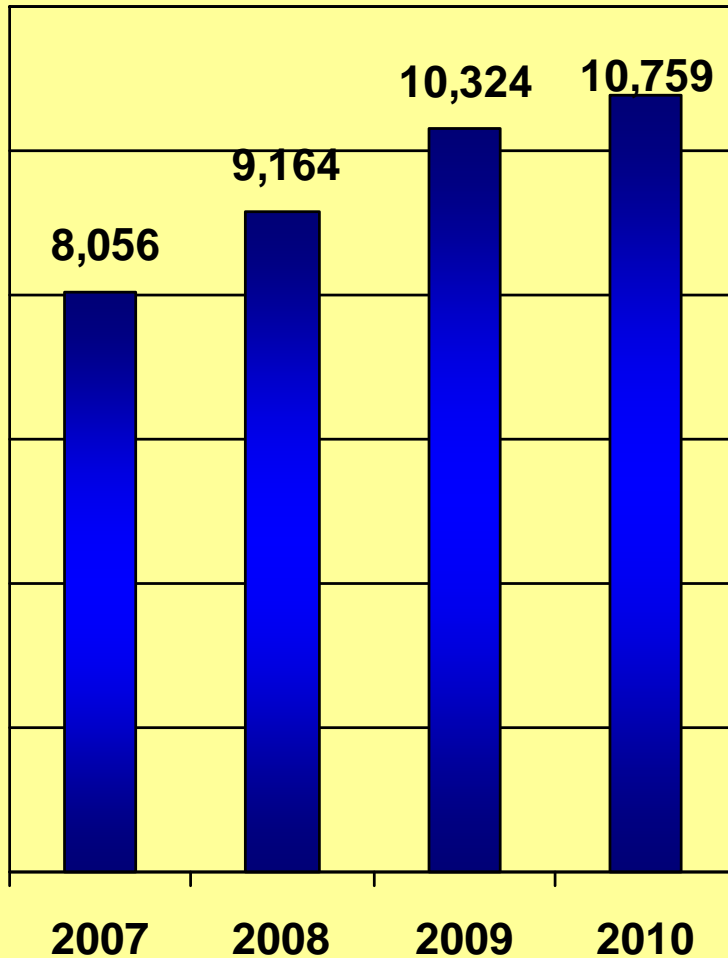
	31 March 2009 (R'000)	31 March 2010 (R'000)	Increase/ decrease
<b>Contributions</b>	10, 324	10,759	↑
<b>Investment income</b>	3, 347	3, 454	↑
<b>Benefits expenditure</b>	3,847	5, 709	↑
<b>Net surplus</b>	9,087	6,853	↓
<b>Investments</b>	36,015	43,732	↑
<b>Technical reserves</b>	11,053	12,485	↑
<b>Accumulated surplus</b>	23,265	28,686	↑
<b>Total assets</b>	36,816	44,987	↑



# Financial Overview Revenue

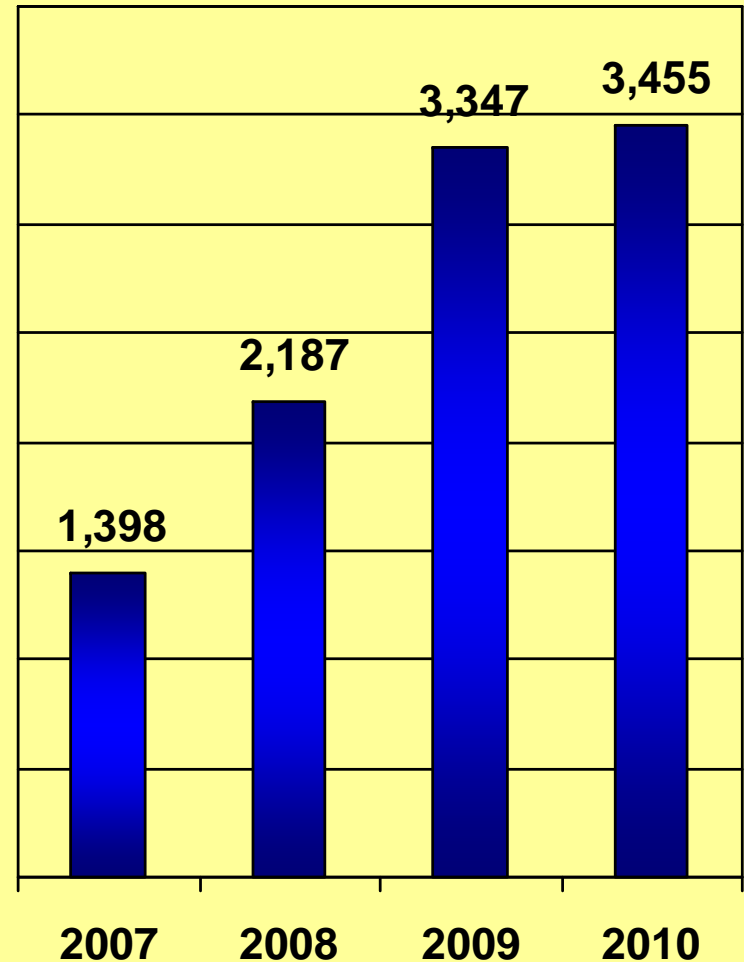
Contribution Revenue

R billion

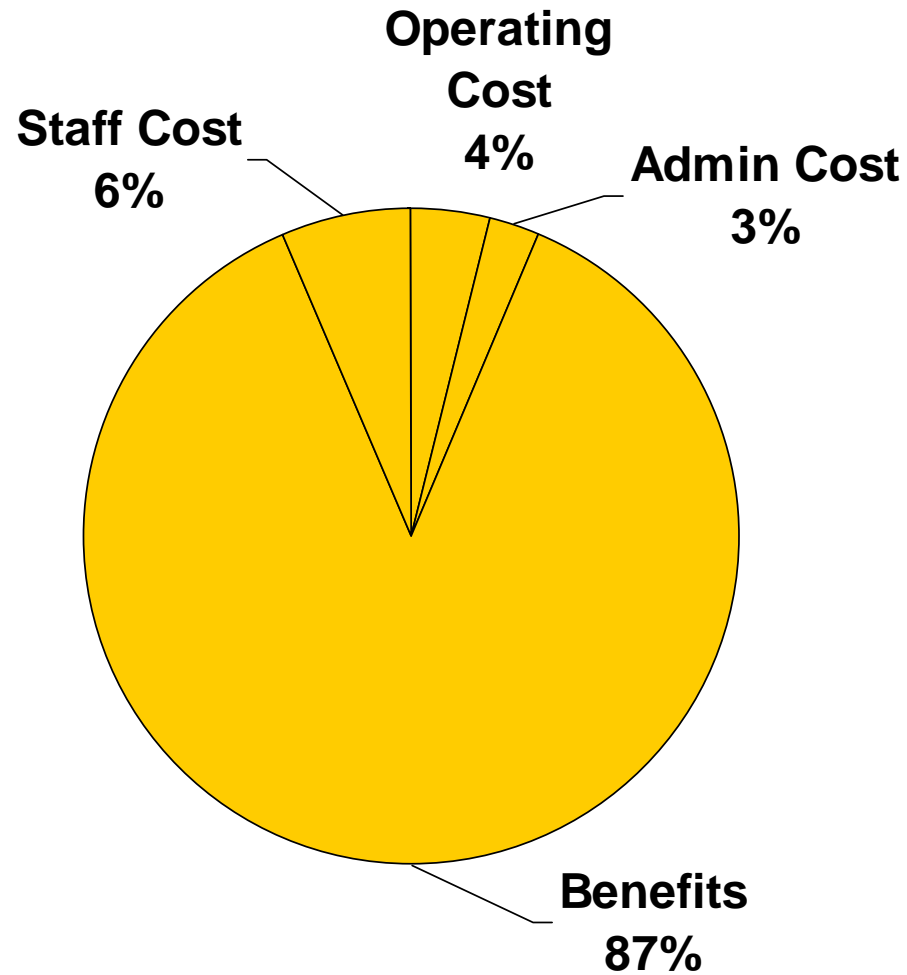


Investment Revenue

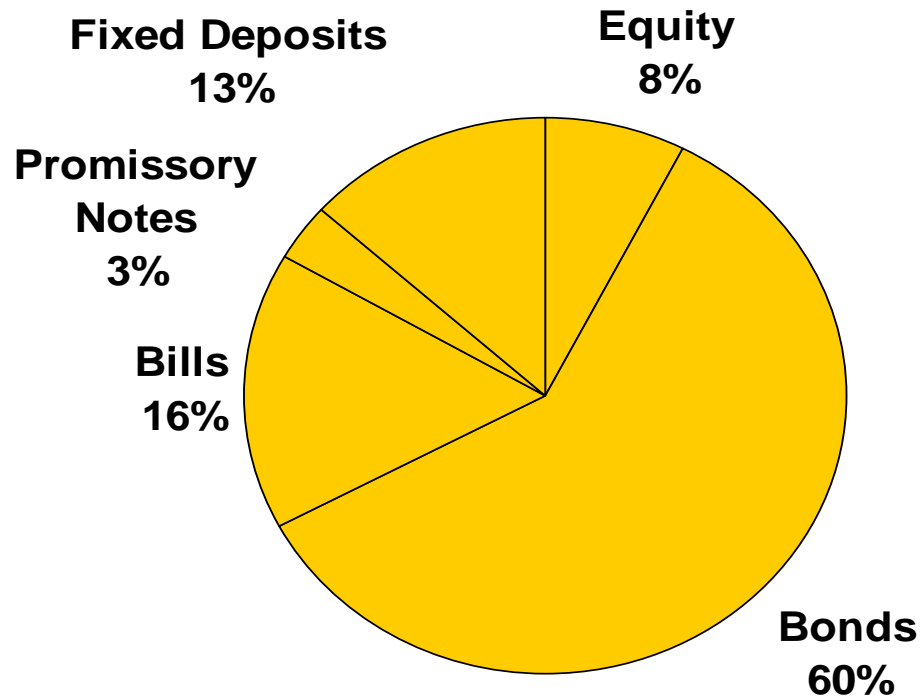
R billion



# Expenditure R 6.54 billion



# Investment Portfolio R 43.6billion



# Financial Overview

- The current international economic conditions still create uncertainty particularly over the future levels of growth, possible debt defaults, volatile equity markets and currency fluctuations. The "Quarterly Labour Force Survey" for the first quarter of 2010 showed an increase of unemployed persons with 145 000 an increase rate of 0.9% against the fourth quarter of 2009 pushing the unemployment rate up to 25.2%
- The South African labour market outlook appears to have stabilised, but the expected increase in employment is likely to be of a subdued nature with a significant amount of slack remaining in the domestic economy. There is likely to be a slow recovery in the South African labour market throughout 2010 with a high demand for unemployment insurance benefits.
- The Funds business model is based on a 'Pay as You Go' system and is fully reserved. The Fund conducts regular actuarial valuations to determine future financial requirements. The Actuaries have concluded that the Fund is in a sound financial position and will be able to meet the predicted unemployment insurance claims

# Performance Highlights for the year

Indicators	Performance
200 registered unemployed person on the UIF database to participate in the scheme – reintegration into labour market	426 UI beneficiaries and 348 ad hoc unemployed people registered on the UIF database participate in the scheme
Improve revenue inflows by at least CPIX as compared to 2008/09	Revenue collected for 2009/10 = R10 760m Revenue collected for 2008/09 = R 10 324m Improvement of 4.21%
Collect at least 15% of the outstanding balance (prior to year end) of overpayments/benefits paid in error	Opening balance as at 01 April 2009 R112.2m Overpayment recovered equals R 37.2m 33% of opening balance collected
Increase 2% of new employees as compared to 2008/09	As at the end of March 2010 the Fund had a database with 7 757 241 employees. This figure compared with March 2009 (7 590 788) reflects an increase of 166 453 new entrants, an increase of 2.2%

# Performance Highlights for the year cont---

Indicators	Performance
Increase by 1% the number of employers on the database as compared to 2008/09	The total number of employers (commercial and domestic) registered on the database is 1 280 950 as compared to 1 233 844 at the end of March 2009, an increase of 3.8%
Increase of 10% registered taxi operators as compared to 2008/09	The registration figure of new taxi operators stood at 5 516 as at March 2009 and this figure has grown to 6 169 an increase of 653 (11.8%)
Five more processing labour centres as compared to 2008/09	The six new processing sites are Mthatha, Newcastle, Queenstown, Ulundi, Port Elizabeth and East London
Finalise 70% of benefit claims within five weeks	Only three provinces achieved the target North West 70.7%, Gauteng North 75.0% and Mpumalanga 80.2% <b>The Average = 51.5%</b>
Amendment Bill submitted to Minister	Amendment Bill was submitted to the Minister



# Social Security Reform

- As part of the process of the social security reforms in the country, the Fund participated in the debates and planning processes of the social security reforms.
- A number of research papers were produced and presented by the Fund to the Interdepartmental Task Team on Social Security. The fund further contributed to the drafting of the consolidated Government position on comprehensive social security reform. The Funds Board recommended the following changes to the UIF act as a further enhancement of UIF.
  - Inclusion of Civil Servants
  - Coverage of legal Migrants
  - Coverage of those on Learnerships
  - Increase the Income Replacement Rate (IRR)

## Training of the unemployed

- The Fund is working with DoL and SETAs on project to train unemployed beneficiaries. This project is up and running in Gauteng. R 40 million was budgeted for this project and the Fund committed R 26,527 million to funding agreements.

Description	Intake	In Training
Call Centre Agents	300	274
Drivers were upgraded and received Public Drivers Permits	150	121
Artisans	324	324

## Training Layoffs

- The Fund allocated R 1.2 billion to the project assisting companies that are in distress due to the economic downturn. Actual payouts were effected only after 1 April 2010

## Training Layoff Scheme progress as at end August 2010

- A total of 6 083 employees benefited from the Scheme
- Total amount of R 36,695,218 has been allocated

# Response to economic meltdown

- The UI Board recommended that an investment be made in the form of a bond issued by the Industrial Development Corporation. It further recommended that a sum of R2 billion be set aside for this purpose
- The IDC Board in March 2010 approved the final terms and conditions of the R2 billion 5-year private placement bond issued by the IDC and subscribed by the Unemployment Insurance Fund. The bond has a coupon rate of a fixed 5%.
- The facility will enable IDC to pass the benefit of the concessionary rate to transactions that have job creation and retention capabilities.
- The UIF/IDC fund was officially launched in April 2010 at the Union Building with a first drawdown of R 500 million.
- Jobs creation/saving: The transactions approved under the UIF Fund Scheme for the quarter ending July 2010, amounting to R61.99 million are estimated to facilitate the creation of 264 new permanent jobs and the saving of 417 existing jobs.

# Conclusion

- The Department of Labour, the Fund, Audit Committee and the Board has appreciated the tenable successes and acknowledged some of the challenges facing the organisation. And, we continue in our strides to address these challenges.
- Stats SA : "Quarterly labour Survey" confirmed that an increase of unemployment rate of 23.5% in quarter 2 of 2009 to 25.2% in quarter 1 of 2010. This was also evident in the high claims that the Fund paid during the year.
- The Fund has enough reserves to protect workers when the risk of unemployment happen. The actuarial valuation results indicated that the Fund is in a sound financial position and covers all its liability; fully funded.
- Issued raised by Internal Audit and Auditor General are being corrected and improvements in the control environment are a reality.
- Besides the speedy turnaround of claims due to high influx of clients, the mandate was fulfilled, the mission achieved as evidenced by AG report, actuarial results and service offerings to South Africa.
- Chairperson, the Fund has significantly improve its internal efficiencies and focuses on serviced delivery; that's the reason changes to the legislation are recommended.

Ri a livhuwa/Enkosi /Thank You/Dankie

Minister

Portfolio Committee of Labour

Board

Accounting authority

Management and staff

## Contacts

UIF Call Centre : 012 337 1680

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Fraud Hotline 0800 60 11 48, Email [fraud@uif.gov.za](mailto:fraud@uif.gov.za)