GOVERNMENT TECHNICAL ADVISORY CENTRE
Analyse, Adjust & Activate
National Treasury - Republic of South Africa

TERMS OF REFERENCE

For the Provision of Technical Advisory Services to the National Treasury

Actuarial Services Provider

PN1354

BACKGROUND INFORMATION

Programme Identification

Name of Client	National Treasury
Name of Project	Actuarial Review of the Unemployment Insurance Fund (UIF)
Contracting Authority	GTAC
Accountable Officer	DG: National Treasury
Project Purpose	To undertake an independent actuarial review of the UIF to assess its financial sustainability, liquidity, solvency and reserve adequacy and to provide policy advice regarding the future design of the contribution and benefit framework.

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1 BACKGROUND INFORMATION

1.1 Introduction

The Unemployment Insurance Fund (UIF) is a statutory social insurance scheme established in terms of the Unemployment Insurance Act, 2001. The Fund provides income-replacement benefits to contributors during periods of unemployment, illness, maternity leave, parental leave, and adoption leave, and to dependents in the event of a contributor's death.

The UIF is financed through mandatory contributions from employers and employees and plays an important role in South Africa's social protection system. Since its establishment, the Fund has accumulated substantial reserves through contributions and investment returns. These reserves are invested through the Public Investment Corporation (PIC) in accordance with the legislative framework governing the Fund.

Over time, questions have emerged regarding the appropriate level of reserves required by the Fund, the adequacy of the current contribution structure, and the long-term sustainability of the benefit framework. While the Unemployment Insurance Amendment Act, 2017, expanded the range and generosity of benefits available to contributors, the Fund has continued to accumulate significant surpluses. In addition, the UIF incurred substantial expenditure through the COVID-19 Temporary Employer/Employee Relief Scheme (TERS), yet remained financially resilient.

National Treasury requires an independent actuarial assessment of the UIF to support policy decisions relating to the contribution structure, benefit framework, reserve adequacy and long-term sustainability of the Fund. The review will also provide assurance on the liquidity and solvency of the UIF and establish an evidence-based framework for determining the reserves required to maintain technical solvency across a range of economic and labour market conditions.

1.2 Problem statement

The UIF has accumulated substantial reserves over many years despite significant benefit reforms and the extraordinary expenditure associated with the COVID-19 pandemic. While annual actuarial valuations and previous reviews have assessed aspects of the Fund's financial position, important policy and actuarial questions remain unresolved.

These include:

- Whether the current contribution structure remains appropriate given the Fund's financial position;
- Whether the current salary ceiling and contribution arrangements remain fit for purpose;
- The level of reserves required to maintain technical solvency in the absence of an explicit state guarantee;
- The impact of changing labour market conditions on the long-term sustainability of the Fund;
- The extent to which current benefit design contributes to the accumulation of reserves; and
- The level of financial risk faced by the Fund under adverse economic scenarios.

National Treasury, therefore, requires an independent actuarial review to assess the financial soundness of the UIF and provide policy options for the future design of the Fund.

1.3 Project Beneficiaries

The primary beneficiaries of this assignment are the National Treasury, the Department of Employment and Labour, the UIF and the broader social security system. The review will support

evidence-based policy decisions relating to contribution rates, benefit design, reserve management and fiscal risk.

2 OBJECTIVES OF ASSIGNMENT

2.1 General Objective

The overall objective of the assignment is to undertake an independent actuarial review of the UIF to assess its financial sustainability, liquidity, solvency and reserve adequacy and to provide policy advice regarding the future design of the contribution and benefit framework.

2.2 Specific Objectives

The specific objectives of the assignment are to:

- Assess the current financial position of the UIF.
- Evaluate the adequacy of the existing contribution structure and salary ceiling.
- Assess the appropriateness of the current benefit design and coverage framework.
- Determine the level of reserves required to maintain technical solvency under an appropriate prudential framework.
- Assess the liquidity position of the Fund and its ability to withstand adverse economic shocks.
- Evaluate the implications of the removal of the State as guarantor of last resort.
- Assess the impact of structural labour market and demographic trends on the future sustainability of the Fund.
- Conduct long-term actuarial projections and stress testing.
- Provide an independent actuarial opinion regarding the liquidity, solvency and reserve adequacy of the Fund.
- Provide evidence-based policy options regarding future contribution and benefit arrangements.

3 ASSUMPTIONS AND RISKS

The assignment assumes that the service provider will have access to relevant actuarial valuations, financial statements, contribution and claims data, previous actuarial studies and supporting information required to undertake the review.

The quality and robustness of the review will depend on the availability, completeness, and reliability of the underlying administrative, financial, and actuarial data. Delays in obtaining data or access to supporting documentation may affect the timing of the assignment.

Changes in labour market conditions, economic performance (especially in light of the geopolitical tensions), inflation, wage growth or unemployment during the course of the review may materially affect projections and actuarial assumptions. The service provider should therefore clearly document all assumptions and undertake appropriate sensitivity and stress testing.

There is also a risk that different actuarial methodologies and solvency frameworks may produce materially different estimates of reserve requirements and technical solvency. The service provider will therefore be required to clearly define and justify the adopted solvency framework and, where appropriate, explain the implications of alternative approaches.

4 SCOPE OF THE WORK

The service provider shall undertake an independent actuarial review of the UIF to assess the liquidity, solvency and reserve adequacy of the Fund and to evaluate the continued

appropriateness of the current contribution and benefit structure. The assignment shall be cover the following elements:

4.1 Update of the actuarial model

The service provider shall:

- Update the existing actuarial model using the latest available UIF, labour market, demographic and macroeconomic data as required.
- Review and update key assumptions relating to employment growth, wage growth, unemployment, claims incidence, investment returns and benefit utilisation.
- Reconcile the findings of the updated model with previous GTAC and UIF actuarial reviews and explain any material differences in assumptions or results.

4.2 Policy Analysis

The service provider shall:

- Assess the continued appropriateness of the UIF contribution levy and contribution structure.
- Analyse structural labour market developments, including unemployment trends, labour force participation, informality, wage trends and other factors affecting the UIF contribution base.
- Model alternative contribution and benefit scenarios and quantify their implications for contributors, beneficiaries, liquidity, solvency and long-term sustainability.
- Identify and assess policy options available to National Treasury and the Department of Employment and Labour.

4.3 Solvency, Liquidity and Reserve Adequacy Review

The service provider shall:

- Define and apply an appropriate prudential framework for assessing the Fund's financial soundness.
- Assess the UIF's liquidity position, solvency position and reserve adequacy.
- Determine the minimum reserve and surplus levels required to maintain technical solvency under baseline and stress-test scenarios.
- Assess the implications of the removal of the State as guarantor of last resort.
- Conduct sensitivity and stress testing under alternative economic, labour market and claims scenarios. Note: the scenarios will be agreed to by the National Treasury and the Department of Employment and Labour.

4.4 Independent Actuarial Opinion

The service provider shall provide an independent actuarial opinion on:

- The liquidity position of the Fund.
- The solvency position of the Fund.
- The adequacy of reserves and accumulated surplus.
- The sustainability of the current contribution and benefit structure and recommended alternatives.

5 PROJECT MANAGEMENT

The assignment will be managed by GTAC on behalf of National Treasury. GTAC will appoint a Technical Advisor (TA) to oversee the overall management and coordination of the assignment. The TA will serve as the primary interface between National Treasury, the UIF, the Department of Employment and Labour and the appointed service provider. The TA will be responsible for facilitating stakeholder engagement, coordinating access to information, monitoring progress against agreed milestones, reviewing deliverables and ensuring that the assignment remains aligned with the objectives of the project.

The service provider will be responsible for the technical execution of the assignment and for producing all required deliverables in accordance with the approved methodology, workplan and reporting requirements. The service provider shall work closely with the TA and relevant officials from the National Treasury, the Department of Employment and Labour and the UIF throughout the assignment.

The service provider will be required to prepare and submit the following project management deliverables:

- An Inception Report setting out the proposed methodology, workplan, key assumptions, data requirements and stakeholder engagement plan.
- Monthly Progress Reports in a format prescribed by GTAC, summarising activities undertaken, progress against milestones, emerging findings, risks, issues requiring management attention and planned activities for the subsequent reporting period.
- A Project Closure Report summarising the work undertaken, key findings, deliverables produced, lessons learnt, outstanding issues and recommendations for future work.

The service provider will be required to present the Inception Report, interim findings and final report to the client. Additional technical meetings, workshops or briefing sessions may be convened by GTAC or National Treasury as required during the course of the assignment.

All reports, presentations and technical outputs shall be submitted to the TA for review prior to circulation to the client. Final approval of deliverables will rest with the client.

6 DELIVERABLES

The service provider shall provide the following deliverables:

Deliverable	Description
Inception Report	Methodology, workplan, assumptions/risks and data requirements
Interim Findings Presentation	Preliminary findings on liquidity, solvency and reserve adequacy, scenario analysis
Draft Final Report	Draft report covering all phases of the assignment in the 1-3-30 GTAC format
Final Report and Actuarial Opinion	Final integrated report incorporating comments and including the independent actuarial opinion
Final Presentation	Presentation of findings and recommendations to the client

7 REQUIRED EXPERTISE

7.1 Composition of team

The assignment shall be undertaken by a suitably qualified and experienced actuarial team with demonstrated expertise in social insurance schemes, long-term financial sustainability assessments, actuarial modelling and public policy analysis. The team should combine actuarial, economic and analytical expertise sufficient to undertake the full scope of the assignment.

The service provider shall identify a Lead Actuary who will be responsible for the overall quality of the technical work, stakeholder engagement, project management and delivery of all outputs.

7.2 Lead actuary

The Lead Actuary shall:

- Be a Fellow of the Actuarial Society of South Africa (ASSA) or an equivalent internationally recognised actuarial professional body.
- Have at least five years of actuarial experience.
- Demonstrate experience in the actuarial assessment of social insurance schemes, pension funds, unemployment insurance schemes, social security systems or similar public sector funds.
- Have proven experience in actuarial valuation methodologies, solvency assessments, reserve adequacy assessments and long-term financial sustainability modelling.
- Demonstrate experience in the development and application of actuarial projection models and scenario analysis.
- Have experience in advising governments, public institutions or social security organisations on funding policy, contribution structures, benefit design or related actuarial matters.
- Demonstrate the ability to communicate complex actuarial concepts to non-technical audiences and present findings to senior decision-makers.

7.3 Supporting team

The service provider shall provide access to additional technical expertise as required to undertake the assignment. The supporting team may include actuarial analysts, economists, labour market specialists, statisticians, financial analysts or other specialists relevant to the scope of work.

8 DURATION

The assignment shall be completed within three months of appointment.

Indicative schedule for planning purposes:

Phase	Activity	Duration
Phase 1	Inception and diagnostic review	Weeks 1–2
Phase 2	Actuarial assessment of liquidity, solvency and reserve adequacy	Weeks 3–6
Phase 3	Review of contributions, benefits and labour market trends	Weeks 7–9
Phase 4	Projection modelling, policy scenarios and reporting	Weeks 10–12

9 INTELLECTUAL PROPERTY

All reports, models, datasets, presentations, working papers, technical notes, code, documentation and other materials developed under this assignment shall become the property of GTAC and National Treasury upon completion of the assignment and payment of the agreed fees.

The service provider shall grant GTAC and National Treasury unrestricted rights to use, modify, update, reproduce, distribute and build upon all deliverables produced under the assignment for government purposes.

Any actuarial models developed, updated or utilised as part of the assignment, including spreadsheet-based models, actuarial projection tools, databases, scripts, algorithms, source code and supporting calculation tools, shall be provided to GTAC in a fully functional and editable format. The service provider shall not provide locked, password-protected or otherwise restricted models unless expressly agreed in writing by GTAC.

The service provider shall submit all final models together with sufficient technical documentation to enable a suitably qualified person to understand, operate, update and maintain the model. Documentation should include, where applicable, model architecture, methodologies, assumptions, formulae, data requirements, calculation logic, user instructions and limitations of the model.

As part of the project closure process, the service provider shall hand over all final models, source files, datasets, documentation and supporting materials to GTAC. The project shall not be considered complete until all intellectual property and associated materials have been transferred to GTAC and accepted by the Lead Technical Advisor.

The service provider may retain copies of the materials for record-keeping purposes, but shall not use, distribute or commercialise any confidential information, data or outputs produced under the assignment without the prior written consent of GTAC and National Treasury.

10 LOGISTICS

The assignment will primarily be undertaken remotely. Meetings, interviews and consultations may be conducted virtually using Microsoft Teams or other approved online collaboration platforms.

Where required, selected meetings, presentations, and client engagements may be held in person at the National Treasury offices in Pretoria or at another location agreed upon by GTAC, National Treasury, and the service provider. The service provider should make provision for attendance at such meetings as part of the assignment.

The service provider shall be responsible for providing all equipment, software, communication facilities, office infrastructure and other resources necessary to undertake the assignment. This includes, but is not limited to, computers, actuarial modelling software, data analysis tools, internet connectivity, printing, administrative support and any other equipment required for the successful completion of the assignment.