

## Proposed change to the SU disability benefit

Stellenbosch University (SU) offers a disability benefit to all its permanent employees, as well as to fixed-term contract appointments who qualify for this benefit in terms of their employment conditions. The disability benefit is a monthly income payable until normal retirement age or for the recovery period, and amounts to 75% of the employee's cost to company (CTC).

Over the past few years, the insurance industry's approach to this benefit has changed. Previously, the premiums for insured disability benefits were tax-deductible, while the proceeds were taxable upon payout. However, following legislative amendments, the premiums are no longer tax-deductible, and the income benefit is now tax-exempt. As a result, the insurance industry no longer insures that portion of the benefit that exceeds an employee's take-home salary. In general, the maximum benefit insured is 75% of CTC, capped at a maximum of CTC less income tax.

The current insurer and their reinsurers have now confirmed that they will no longer be underwriting a policy that still offers the full disability benefit. Their argument is that employees should not receive a higher net income when on disability than when working, as this serves as a disincentive to complying with the insurer's rehabilitation requirements.

The University intends to align its benefit policy with the industry standard of 75% of CTC, capped at a maximum of CTC less income tax. If the current benefit were to remain unchanged, this would require the University to self-insure the portion not covered by the insurer, which would be a major financial risk.

The change will not affect all SU employees – only those with an average tax rate higher than 25%. The effect of the change is illustrated in the examples below. (To simplify matters, the examples do not reflect any other SU benefits.)

Example of employee earning R1 000 000			Example of employee earning R500 000		
	Before disability	During disability		Before disability	During disability
Cost to company	1 000 000	697 327	Cost to company	500 000	500 000
75% of CTC	750 000	750 000	75% of CTC	375 000	375 000
Taxable income	1 000 000	0	Taxable income	500 000	0
Tax per year	302 673	0	Tax per year	107 481	0
Nett income after tax	697 327	697 327	Nett income after tax	392 519	375 000
Average tax rate	30%		Average tax rate	21%	
Reduction in disability benefit		52 673	Reduction in disability benefit		-
Reduction in take home salary		-	Reduction in take home salary		-17 519
Replacement Ratio		100%	Replacement Ratio		96%

Therefore, where an employee's tax rate is higher than 25% (example on the left), the 75% of CTC benefit reduces, but the take-home pay after tax stays the same. For an employee with a tax rate below 25% (example on the right), the benefit stays the same, and nett income after tax is the full benefit of 75% of CTC.

Even with the proposed change taken into account, we still believe SU's disability benefit to be superior to that offered by many other employers.

Before implementing this change, we are affording employees an opportunity to express their views on the matter. Kindly send any comments or feedback to [sun-e-hr@sun.ac.za](mailto:sun-e-hr@sun.ac.za) by close of business on 10 December 2021. All feedback will be collated and presented to the Rectorate for final consideration. The Rectorate's decision will be communicated as soon as possible thereafter.

Kind regards

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