



Death a factor

Finweek

31 March 2011

A shocking fact of life in South Africa that seldom really rings alarm bells is an average life expectancy barely in the mid-50s, whether through HIV/AIDS or other risks peculiar to this country. The last population estimates by Statistics SA reported life expectancy has been in slow decline in SA since 2001, with estimates for 2010 at 53,3 years for males and 55,2 years for females. In 1985, deaths were 25% of births. However, figures extrapolated by the Actuarial Society of SA predict by 2021 that the figure will rise to 87% of births and some time thereafter SA's population will begin to decline.

Some argue death is therefore more of a factor than retirement for the bulk of SA's population.

Kenny Meiring, head of broker sales and marketing at Metropolitan, says the focus of employee benefits should therefore be less on "comfortable" retirement as it should be on death and on maintaining death cover at rates appropriate to ensure the survival of dependants. "One of the easy savings companies look to make is to reduce the quantum of group life cover from five to three and we even get requests for one to two times annual salary. It doesn't come up against much resistance, because few people expect to die – although it has a far greater impact on lifestyle when an individual does die," says Meiring.

"It's situations like this where the employee benefits industry can and should be adding value to the client, advising him where sensible savings can be implemented that don't actually diminish the ultimate benefits the member enjoys."

A worrying issue is Government's National Health Insurance (NHI) proposal provides for group life cover of only one times annual salary, and Meiring says should that become an eventuality he foresees companies withdrawing their company benefit because their employees are now "covered" by a public scheme, effectively leaving people exposed.

Willem Loots, actuarial manager at Liberty Corporate, says Aids has been responsible for dramatically lowering the overall average life expectancy in SA but it can't be used as justification for diluting the focus on retirement savings. "The average life expectancy doesn't reveal the full picture. One way to analyse savings needs is to divide South African life expectancy into two groups. The first is of individuals who contract HIV and experience dramatically impaired life expectancies. The second group is of those who are HIV negative and remain so throughout their future lifetime. That group is expected to gradually live to higher average ages over time.

"That increase in life expectancy can broadly be ascribed to significant improvements in medical technology and care, improvements in overall workplace health and safety as well as an increased popular awareness of the benefits of a healthy lifestyle," says Loots.

"The above classification allows for a generalised assessment of individuals' relative need for retirement savings. The HIV positive group will be far less likely to reach normal retirement age and will likely need significantly more medical treatment. Their ability to work may also be adversely affected due to poor health. The result is a greater need to access savings earlier in life, either to live off or to leave to dependants. Fortunately, the adverse impact of HIV is dramatically reduced by the availability of antiretroviral treatment. That's been reinforced by the latest AIDS and demographic model released by the Actuarial Society of SA.

"The second group will likely live to significantly older average ages than previous generations. For that category there's a dramatically greater need for sufficient savings to retire comfortably. Therefore, the major risks for those individuals are that they outlive their savings or that they're unable to buy a sufficient income at retirement, which highlights the importance of maintaining a disciplined savings programme, even if it requires a reduction in non-essential discretionary spending," Loots says