

Media Release

Association for Savings and Investment South Africa (ASISA)

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PROTECT YOUR FAMILY AGAINST FINANCIAL RUIN BY CLOSING YOUR DEATH AND DISABILITY COVER GAP

Every day in South Africa an average of 383 families will lose a loved one while an additional 127 people will suffer a permanent disability. Unfortunately, these tragedies will leave many of the affected households financially destitute given that the majority of South African earners are underinsured by 59%.

The 2016 Life and Disability Insurance Gap Study conducted on behalf of the Association for Savings and Investment South Africa (ASISA) by True South Actuaries and Consultants shows that the life and disability insurance gap had widened to an overwhelming R28.8 trillion by the end of 2015 from R24 trillion at the end of 2012. The Study, conducted every three years, measures the difference between existing life and disability cover and the actual insurance needs of South African earners.

Peter Dempsey, deputy CEO of ASISA, says, "While many choose to believe that the unexpected could never happen to them or their families, the statistics prove otherwise. It is therefore vital that you protect the financial welfare of your loved ones through any of life's ups and downs with adequate risk cover."

He notes that the insurance shortfall for the average income earner widened to more than R900 000 for life cover and over R1.1 million for disability cover.

"This means that in addition to the emotional trauma they may be experiencing as a result of a death or disability, families would have to overcome this shortfall either by finding extra income or looking at ways to reduce expenses, such as selling a car, family home and sending children to more affordable schooling," he warns.

He observes that while the Gap Study only considers the income needs of households following a tragedy, it is important to remember that where a breadwinner has suffered a disability, not only would their family suffer a loss of income but also face additional medical and other unforeseen expenses.

He also notes that many consumers do not invest in adequate financial protection in the belief that insurers do not pay claims, which is one reason why the insurance gap continues to widen.

“However, our statistics show that this is not the case and that South African life insurers continue to honour the overwhelming majority of underwritten claims, offering valuable financial protection and boosting a sluggish economy through benefit payments.”

ASISA statistics show that life insurers paid more than R45.5 billion last year to individuals who had experienced disability or lost a family member.

THE COST OF CLOSING THE GAP

“Times are tough, but it is important to weigh the costs of your insurance against the risk to you and your loved ones of being caught without,” states Dempsey.

He emphasises that the loss of a breadwinner can have devastating financial implications for households, resulting in significant hardship.

For instance, he notes that the costs of closing the insurance gap are relatively low, as the average earner would only need to spend an additional 4.2% of their monthly income (net of tax) to purchase adequate life insurance, and 2.4% a month for disability cover.

“Without purchasing additional insurance, however, households would be forced to generate an additional R4 970 each month following the loss of a loved one and R5 977 following a disability,” he states.

He warns that if households were unable to generate this additional income to maintain their standard of living following a tragedy, the study indicates that families would then need to substantially reduce their expenses.

“This could mean cutting back on expenses by as much as a 34% following a death and 30% following the disability of an earner in order to plug the insurance gap, which could be very difficult,” he says.

He observes that in difficult economic conditions, this could mean that some households would become dependent on other family members, potentially reducing the financial well-being of a much wider group of people.

“Insurance is often a grudge purchase, as you won’t see any immediate benefit for this protection. The Gap Study reinforces, however, the benefit of sacrificing a relatively small portion of your income to protect yourself, your family and potentially your wider social circle from the devastating financial impact of a death or disability.”

YOUNG EARNERS PARTICULARLY AT RISK

The 2016 Life and Disability Insurance Gap Study reveals that the insurance gap is substantially wider among earners below the age of 40 years as compared to their older counterparts.

Earners below the age of 30 years face an average insurance shortfall of R1.2 million for life cover and R1.4 million for disability, while earners between the age of 30 and 39 years face an even higher average shortfall of R1.3 million for life cover and R1.6 million for disability.

The insurance gap narrows substantially for earners above the age of 40 years, with the average shortfall for earners between the age of 50 and 54 years at only R150 000 for life cover and R323 000 for disability.

“Younger earners and young families must be aware that they would need to rely on the income from their insurance for much longer following a tragedy than older earners drawing closer to retirement, making their insurance need much higher,” explains Dempsey.

He emphasises, however, that as younger earners are usually healthier and less likely to have developed a serious medical condition, their insurance premiums will generally be much lower than that of older earners.

“Younger earners also need to remember that because they are more likely to have debts that they will need to repay in addition to needing to save towards their retirement, guaranteeing their future income against disability is particularly important,” he notes.

He states that as a young earner, you should therefore consult a trusted financial adviser to ensure that you purchase the correct amount and type of insurance for your individual needs as soon as possible.

“You will also need to review this cover annually as your circumstances change, for instance as you have children, buy a home or receive salary increases.”

Ends

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ASISA represents the majority of South Africa's asset managers, collective investment scheme management companies, linked investment service providers, multi-managers, and life insurance companies. These members hold assets under management of more than R8.6 trillion.