

Why South Africans need the lifeline of income protection

South Africa, 14 April 2021: In 2020, 59% of all COVID-19 related Sanlam income protection pay-outs were to people younger than 39 years old. This statistic underlines the critical importance of income protection for young professionals, says Sanlam Product Development Actuary Karen Bongers, noting that the long-term loss of income due to illness or injury is the single biggest financial risk young people face throughout their working lives.

Beyond the financial impact of illness and injury, she says economic realities are resulting in South Africans battling to meet their monthly financial obligations, which makes income protection even more important.

Over the last year, research by Catalyst shows that 41% of respondents relooked their finances and insurance cover, highlighting the financial uncertainty felt by so many. Difficult economic times exacerbate the inability of most people to carry themselves financially, if an illness or injury means they are unable to work, even for a short period. The peace of mind linked to income protection cannot be overstated.

In a recent study, [PayCurve](#) noted almost 80% of South Africans are seeking unsecured loans to meet their monthly financial obligations. Another study by [DebtBusters](#) showed that 1.6 million South Africans capitalised on payment holidays, with resulting debt repayments of R20.7 billion.

“Imagine a 28-year-old primary breadwinner being rendered unable to work for six months. The knock-on effect for them and their family would likely be immense,” Says Bongers. With South Africans’ household savings rate just 0.7% in the third quarter of last year, based on a [Trading Economics](#) report, few households are likely to have emergency funds to ‘cover’ a lost income for more than one or two months.

She adds, “Of course, the impact is much worse if the inability to work is permanent. Our claim statistics show that it’s not just older individuals who need income protection. The permanent loss of an income is particularly concerning for younger people, who have many more years of earning potential ahead of them.”

Here, Bongers outlines some key things to know about income protection:

1. **How is income protection different to disability cover?** The terms can be used interchangeably, but income protection generally refers to products that pay a *monthly income* if you are unable to work, either temporarily or permanently, due to illness or injury. Disability cover generally refers to benefits that pay out a *lump sum* if an illness or injury renders you permanently unable to work. A combination of both could help you cover certain once-off lump sum expenses, with the income pay-out providing a long-term replacement for your monthly income.
2. **Who qualifies for income protection cover?** Generally, you need to be employed, have a qualifying occupation and be medically insurable to meet the requirements to take out income protection. However, certain products can expand to accommodate those not meeting the above criteria, such as Sanlam's accidental income benefit, which is available to medically uninsurable people – a market first in South Africa. Another example is Sanlam's Impairment Income benefit, which can provide income cover to those who do not qualify for occupational disability cover, such as stay-at-home parents.
3. **Does your income protection include impairment cover?** Living with a permanent impairment, like a physical disability or an illness that affects your lifestyle, can result in additional monthly expenses even if you can still work. Some products – like Sanlam's range – have the option to select the extent of impairment cover depending on the person's needs and budget.

Bongers concludes, "Income protection is an essential conversation to have with your financial planner in order to ensure the financial security of yourself and your loved ones, especially in the current climate of uncertainty where even short-term losses can wreak havoc. Young people often have an 'it won't happen to me mentality. That's completely understandable, but the reality is that they face the biggest risk, due to the many years of earning potential ahead. Having the right policies in place provides peace of mind should an unexpected curveball occur."

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(Sanlam Media Release)