Consumer Education Media Release
Association for Savings and Investment South Africa (ASISA)
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South African earners under 40 most likely to be underinsured

South African income earners under the age of 40 are far more likely to face a substantial life and disability shortfall than older earners, according to the findings of the 2019 ASISA Life and Disability Insurance Gap Study.

South Africa's life and disability insurance gap is measured every three years by the Association for Savings and Investment South Africa (ASISA) in partnership with True South Actuaries & Consultants.

Releasing the findings of the fifth ASISA Life and Disability Insurance Gap Study, Rosemary Lightbody, senior policy adviser at ASISA, says earners younger than 30 years face an average insurance shortfall of R1.4 million for life cover and R1.5 million for disability. Earners between the ages of 30 and 39 years face similar shortfalls.

Lightbody points out, however, that the insurance gap narrows substantially for earners above the age of 40 years. Earners older than 55 on average tend to have more life cover in place than is needed, while the disability insurance gap is negligible at just over R0.1 million (R130 000).

"The insurance needs of older earners tend to be lower than the cover in place, often as a result of group life and disability cover through years of membership of an employer's pension fund. Also, the gap study assumes that insurance needs only exist until retirement age, since earners are expected to make provision for an income in retirement during their pre-retirement years."

Life and disability insurance gap in 2018 per age group

	Under 30	**30 to 39**	**40 to 49**	**50 to 54**	**55 +**
Life cover gap	R1.4 million	R1.4 million	R0.9 million	R0.1 million	No gap
Disability cover gap	R1.5 million	R1.5 million	R1.2 million	R0.6 million	R0.1 million
Total number of earners	4.3 million	4.7 million	3.8 million	1.4 million	1.4 million

Young earners most at risk

Lightbody says since nine million of South Africa's 15.6 million earners are younger than 40 years, the majority of the country's earners are likely to be significantly underinsured.

"The tragedy of this is that younger earners and young families would need to rely on the income from their insurance for much longer following a death or disability event than older earners drawing closer to retirement. This means that their insurance needs are so much higher."

Lightbody points out that since young earners are more likely to be heavily indebted for mortgage bonds and car payments, in addition to having to fund children's education and saving for their retirement, protecting their future income in the event of disability is critical.

Lightbody says young adults rarely think about the possibility of dying or becoming disabled and therefore cannot see the point of buying life and disability cover. The reality is, however, that most people will need life cover at some stage of their lives, whether to cover debt like a mortgage bond or car repayments, financial obligations towards dependants or for estate planning purposes later in life.

Buy life and disability cover when you start out

According to Lightbody, the best time to buy life and disability cover is when you are young and healthy.

"It is important for young earners to realise that they are usually able to buy life and disability cover at much lower premiums than older earners, because they are less likely to have developed serious medical conditions likely to push up premiums as a result of the higher risk."

She urges young earners to start thinking of life and disability insurance cover as a valuable financial asset, which can become impossible to replace as you grow older, instead of a grudge purchase best kept to a minimum.

"If you develop serious medical problems later in life you may find it difficult to find a life insurer willing to insure you. And if you do find an insurer willing to insure you, expect to pay hefty premiums – the higher the risk you pose to the life company, the higher the cost of your life cover will be."

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, says Lightbody. "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."

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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.