UNDERINSURED SOUTH AFRICANS URGED TO KEEP PACE WITH INFLATION

With consumer price inflation (CPI) continuing to increase, recording year-on-year growth of 5.0% in June 2011, up from 4.6% a month earlier, it is essential for South Africans to ensure their life insurance cover is keeping up with inflation.

A study released last year by the Association for Savings and Investments of South Africa (ASISA) showing the average South African earner is underinsured by a massive 62%. According to Chris de Klerk, Corporate Actuary at PPS, this is partly as a result of people not regularly reviewing their finances to take account of inflation and the higher cost of living in general.

“Ideally a review of one’s finances should happen once a year; however, if someone is unlikely to do this then it is vital that they at least have some form of annual escalation in place to make sure that their policy benefits keeps pace with rising inflation.

“A built in protection mechanism to cater for inflation automatically increases cover on a policy by at least the inflation rate, thereby ensuring that even if a client doesn’t actively keep his policy up to date with his salary and changing circumstances, it will at least keep in pace with inflation.”

De Klerk says failing to keep up with inflation will have a significant impact on the degree of cover one has in place. “If someone takes out R1m life cover and escalates this each year by 6%, which is a few percentage points ahead of long term inflation expectations, , their life cover in ten years time would have increased to R1 790 847. Just to keep pace with an average inflation rate of 4% a year, one would need total life cover of R1 480 244 in ten years time. Had the same person not opted to increase their cover at all, this would be the equivalent of having just R675 564 of life cover in place today.

He further says that while it is critical for consumers to ensure that their life cover keeps pace with inflation, another serious mistake is a failure to regularly update policies in line with lifestyle changes such as getting married and having children, as well as salary increases. “If the salary of the main breadwinner in a family increases, particularly if by a significant amount, so do the spending habits of the family, on items such as a bigger bond or car loan. However, if the associated life cover is also not increased by a similar amount then the family may be left in a financially disastrous position.

“Families of these individuals will have a standard of living that will be impossible to maintain if something were to happen to the main breadwinner. It is, therefore, critical that adequate life - and disability - cover is in place should the worst happen.”

De Klerk says it is essential for consumers to take the time to regularly review all of their financial affairs, including the sufficiency of their life cover, and inform their financial adviser or product provider of any major lifestyle changes such as marriage and children, to ensure their families are fully protected and provided for."