

FINANCIAL SERVICES

Never too early

Youngsters must be considered in retirement and healthcare reforms

IN AN EFFORT TO IMPROVE the lives of ordinary South Africans, the country is on the brink of reforming both the retirement and health sectors.

While reforms are desperately needed, one policy aspect that is often overlooked relates to how young people are included in the system.



Craig Aitchison

According to the Development Bank of Southern Africa, unemployment in people under 30 is a growing problem: 47% of people of working age under 30 are out of work and around a third of these are not looking for work and are thus excluded from official unemployment figures. Those fortunate enough to secure employment enjoy much less job security than their older colleagues. In fact, they are twice as likely to be retrenched (according to statistics from the first six months of last year).

"The issue of youth unemployment is the elephant in the room as far as reforms are concerned," says Craig Aitchison, Head of OMAC Actuaries and Consultants.

"These reforms cost money and rely on a working population of a certain size to support the sick and the

elderly. Youth unemployment means the pool of contributors is much smaller. It also means this group is unable to save in their early twenties.

"Savings made early in one's working life form the core of one's retirement savings because they grow with compound interest for the longest time period. If young people are not saving it means that a vast number of people will be reliant on the state in their old age, even if they secure employment later in life."

Aitchison says this is compounded by the fact that young people are more likely to have jobs without health and retirement benefits. The Development Bank of Southern Africa suggests that only a fifth of workers under 30 belong to a medical scheme and a third have retirement benefits.

These statistics are supported by the findings of the Old Mutual Savings Monitor, published last November. The results indicate that 53% of working South Africans have access to retirement savings vehicles and 40% have access to medical cover; only 28% of under-30s are members of pension or provident funds and just under 30% belong to a medical scheme.

In short, even when young people secure work, they are largely excluded from the savings and insurance benefits that many workers take for granted.

The result is twofold.

"Firstly, younger members are financially vulnerable to high, unexpected medical costs at a time when they are fairly likely to experience them," says Margaret Hulme, Manager of Healthcare Consulting at OMAC. Teen drivers are four times more likely to crash than older drivers. Young adults aged between 20

and 30 are also more like to crash than older drivers. The likelihood of getting into a serious accident is highest amongst young men.

"Medical costs in these situations can amount to hundreds of thousands of rand or even millions of rand," says Hulme. "This can result in individuals becoming seriously indebted if they do not have adequate medical cover."

Secondly, the later one starts saving for retirement, the more one needs to save to retire comfortably. Someone starting to save at age 35 may need to save around 50% more each month than someone who starts saving at 25.

"Unfortunately, our tax system does not sufficiently incentivise late-starters to save more for retirement, and many retirement funds do not allow flexible contributions," says Aitchison. "However, considering the savings position of South Africans under 30, a review of this stance is long overdue."

MOTOR INSURANCE

Drinking up profits

Industry's biggest source of loss

MOTOR INSURANCE IS THE short term industry's largest class of business, and has been under considerable pressure with around 70% of insurance claims being road accident-related. Alcohol consumption, as to be expected, is a factor in many of these instances.

Ronnie Napier, Chairperson of SA Insurance Association (SAIA), says, "Road safety initiatives are being implemented by the association in an attempt to curb the high accident rate in South Africa, and thereby to ensure that motor insurance remains affordable."

Comments Sphiwe Nzimande, Deputy Chairperson of Business Against Crime South Africa (BACSA), "Given the strong results that the first alcohol testing centre in Village Road Johannesburg has shown, we are hopeful that this centre will help to curb a general sense of lawlessness on South African roads. We are grateful for the support from SAIA and believe that this partnership will assist the law enforcement agencies to promote a zero-tolerance for incidents of drunk driving or driving under the influence."

Chilling statistics from Arrive Alive highlight the extent of lawlessness on South African roads. On average, 36 lives are lost every day due to road accidents (including 15 pedestrians and three in taxi-related accidents). This accounts for approximately 13 000 people being killed needlessly on our roads every year. The costs of road accidents to individuals, commerce, and communities is approximately R38 billion a year.

SAIA, on behalf of its members,

COMPANY BUSINESS — 1

Management buy shares from founders

FIRSTRAND LIMITED just before Christmas announced that senior executives of FirstRand Limited and RMBH Limited have agreed in a private transaction to purchase FirstRand and RMBH ordinary shares from the Group's founders GT Ferreira, Laurie Dippenaar and Paul Harris.

The agreed transaction value amounts to R398.4 million, and is based on share prices of R26.84 (RMBH) and R16.06 (FSR), representing the 30 day volume weighted average prices ruling in mid October 2009 when discussions were initiated.

Commenting on the transaction on behalf of the Founders Consortium, Laurie Dippenaar said, "Much of FirstRand's and RMBH's success since inception can be attributed to the "owner manager" culture that has been embedded throughout the Group over many years. This culture has been critical to the spirit of innovation and entrepreneurship."

"The transference of ownership of these shares to the senior management of both RMBH and FirstRand goes some way towards creating the next generation of owner managers to take the businesses forward, and in addition ensures that management and shareholders' interests continue to be closely aligned."

Sizwe Nxasana, CEO of FirstRand said that its senior team was confident of the Group's strategy and growth prospects. "This transaction underlines the senior team's commitment to producing superior returns to shareholders" he said.

has since 2002 donated funds to BACSA in support of its violent and organised crime initiatives. This support has reaped results for the short-term insurance industry with claims related to motor theft and vehicle hijacking reducing to approximately 50% (per thousand vehicles).



Comments Napier, "Vehicle crime is no longer the primary cause of concern for motor insurers, although still important. Instead, road safety has become an area of great concern. Many of SAIA's motor insurance members have recognised a problem in terms of motor vehicle accident-related claims that are linked to alcohol. In fact, some of our members have indicated that, of the accident-related claims where alcohol testing was undertaken, an estimated 80% of them end up being rejected."

This year SAIA, on behalf of its members, donated R1 535 000 to BACSA. These funds were used for BACSA's Violent and Organised Crime initiative which includes vehicle crime and other crimes such as business robberies and household robberies, and the rest of the funds enabled the creation of the Randburg Alcohol Testing Centre as part of SAIA's strategy to address the current road safety problems.

Ndlovu, spokesperson for the Johannesburg Metro Police Department, says that the Randburg Alcohol Testing Centre uses state of the art breathalysing, as opposed to blood testing, technology to test drivers' alcohol levels. He emphasises the benefits of this technology saying, "The results of breathalysing testing can