

RETIREMENT AND HEALTHCARE

Reforms must **consider the youth**

In an effort to improve the lives of South Africans, the country is on the brink of reforming both the retirement and healthcare sectors.

While many of the reforms proposed in the retirement and healthcare industries are desperately needed, and have many merits, one policy aspect that needs a closer look relates to how young people are included in the system. According to the Old Mutual Savings Monitor, launched in November 2009, unemployment among people under the age of 30 is a growing problem. Around 47% of people of working age under the age of 30 are out of work. A third of these is not looking for work and is consequently excluded from official unemployment figures. Those fortunate enough to secure employment enjoy much less job security than their older colleagues. In fact, they were twice as likely to be retrenched in the first six months of 2009.

IMPLICATIONS OF YOUTH UNEMPLOYMENT

"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 that the pool of contributors is much smaller. It also means that this group is unable to save in their early twenties. These savings form the core of one's retirement savings because they grow with compound interest for the longest period. This 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 that 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 the age of 30 have medical aid and just a third have retirement benefits.

These statistics are supported by the Old Mutual Savings Barometer. The results indicated that 53% of working South Africans have access to retirement savings vehicles and 40% have access to medical insurance. Only 28% of under-30s are members of pension or provident funds and just less than 30% are members of a medical scheme.

EMPLOYED YOUTH FACE DIFFERENT CHALLENGES

Even when young people secure work, they are 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 OMAC Actuaries and Consultants Healthcare. Teen drivers aged 16 to 19 are four times more likely to crash than older drivers. Young adults aged between 20 and 30 are also more likely to crash than older drivers. The likelihood of getting into a serious accident is highest among young men.

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

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 started saving at 25.

"Unfortunately, our tax system does not 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." **35**



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