

How much life cover and disability cover do you need?

Francois Hugo from True South Actuaries and Consultants published a research article in February 2008 in which he estimated that South Africans are underinsured by about R10 trillion. That is an enormous amount. He estimates that for average earners their life and disability underinsurance gap could be closed with premiums of between R1300 and R2300 per month. Premiums of this size may sound like quite a bit of money but it still remains one of the cheapest ways to increase the capital value of a family unit from one generation to the next.

He further points out that people earning R8 200 per month should on average make provision for life cover of at least R2.1m whereas the average in South Africa is R1.3m.

One reason why individuals don't have enough life and disability cover is that they don't have a "calculator" to tell them how much they need. Part of the problem is that very few people stop to think about how much their dependents will need to finance their existing lifestyle if they were to become disabled or worse pass away.

Life cover:

Life cover is basically for your dependents. The more dependents you have the more important it is to consider the issues surrounding life cover. The best way to get a handle on how much life cover you need is to role play the different scenarios. Here are some of the important ones to consider:

- Based on the capital you have at the moment and how much capital your spouse requires to finance the same standard of living from retirement, what is your current shortfall? Therefore, if you have R2m of investable assets now that could be used by your spouse for retirement purposes, but based on an actuarial calculation you need R3m today, you have R1m shortfall to be covered by life cover.

Point 1 above dealt with the amount of assets the spouse needs at retirement to finance an income "after" retirement. Let's now look at what the spouse needs before retirement.

- How much does your family need, if you passed away today, to finance their living expenses for the next 5 / 10 / 15 years? The number of years depends on the number of years it will take to see your youngest child through tertiary education or when your spouse can find a proper job to supplement lost income.

This calculation could be something like: Your annual salary x number of years x Discount factor

- How much debt do you have that you would like to clear on your death?
- Do you want to put an additional amount aside for the funeral? This benefit is generally oversold and is less important for higher income earners compared to the above points.

Points 1 – 3 are generally more important for the main breadwinner. Couples, where both work and where both salaries are relatively the same, could discuss the same points but in more depth.

Disability cover:

As life cover is generally for your family, disability cover is for both you and your family. Let's look at some pointers to consider.

- What percentage of your income do you need on a monthly basis up to retirement to sustain the current living standard? This could be 75% or 100% of your current salary. Remember that this

income should also be used to save for retirement.

- What size lump sum would you need to pay any potential additional medical expenses? You need to consider the current benefit structure of your medical scheme.
- What size lump sum would you need to make alterations to your home or car?
- Severe illness: What size lump sum would you need in case you contract a severe illness like cancer?

These issues aren't things one think about on a frequent basis but to role play and create scenarios does make it easier to get an understanding how much one family needs.

Email us at info@seedinvestments.co.za if you like us to assist you with these calculations.

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You can also find a pension calculator for retirement planning purposes on the Benchmark Retirement Fund page at <http://www.rfsol.com.na/BM01.html>