

AIDS deaths fall, employers urged to increase focus on disability cover

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Old Mutual Corporate says that for a number of large employers and retirement funds that Old Mutual insures there has been a marked reduction in the number of deaths in recent years. However while AIDS deaths are decreasing, disability claims due to AIDS have been increasing steadily. Employers could, therefore, take advantage of lower group life premiums by focussing on improving disability benefits for employees.

The experience of Old Mutual's group risk schemes has shown that AIDS is changing from a certain death sentence to a chronic and manageable disease.

There is much speculation about the future of AIDS, but one thing is clear - although its effects may be changing, the disease has had and will continue to have a profound impact and employers are well-advised to plan for this.

Disability insurance the most pressing need

While there are various options in terms of utilising the savings in group life premiums as a result of declining AIDS deaths, disability insurance is arguably the most pressing need. The ASISA insurance gap study showed that South African families are underinsured by R6 trillion of disability cover.

The focus on death cover, and the rising costs of that cover, has diverted focus and money from disability insurance. The result is that many disability arrangements are based on insurance that was available in the market a decade ago. A reduction in group life premiums is an excellent opportunity to re-evaluate a group's disability needs.

Disability insurance has evolved considerably over the past decade and there are a number of new-generation products available, such as Old Mutual's full salary replacement for the entire duration of a claim.

A key factor for disability income cover is the replacement ratio - the level of income an employee gets if he becomes a claimant. Traditionally this is set at 75% of pre-disability earnings. By increasing this to 100% the employee will have his full salary replaced and will be able to cope with the reduced ability to earn an income and any additional expenses as a result of the disability.

Inflation-linked increases

The annual increase of the benefit that a claimant receives is another often overlooked option, which can rapidly erode the

person's purchasing power. Employers should help retain the real value by considering including inflation-linked (CPI) increases, but people should beware of products with limits on the increase (e.g. 5%). Some products even offer increases at above CPI to mirror salary inflation.

Disability policies typically require a period of time to elapse before benefit payments start. This is commonly known as a "waiting period". Employers can customise products to pay earlier (as short as one month) or later (e.g. six months), according to their budget and ability to cope with paying extra sick leave before the benefit starts.

By using some of these levers, employers can significantly add value and protection through disability insurance.

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