



## AIDS reality bedevils social security plans



Nathea Nicolay, Manager of AIDS Risk Consulting for Metropolitan's Employee Benefits.

The financial impact of HIV and AIDS on the proposed National Social Security Fund (NSSF) will be dramatic, with actuarial models showing that the average 20-year-old South African will not even reach retirement age, according to demographic models of the Actuarial Society of South Africa.

With just half of the 1 million South Africans needing ARVs currently on treatment, the critical balancing act required to support people through short-term financial needs while encouraging them to save towards retirement has become glaringly apparent.

This is according to Nathea Nicolay, manager of AIDS Risk Consulting for Metropolitan's Employee Benefits in a presentation at the Institute of Retirement Funds Conference held in Durban on 25 August.

The actuary says current life expectancy in South Africa due to AIDS is 56 – and it could drop even further unless the government invests more in HIV prevention and treatment, thus saving the fiscus billions in the long term. An estimated 75% of all deaths in South Africa between the ages of 25 and 40 are currently AIDS related, according

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to Actuarial Society of South Africa demographic models.

Nicolay, who caused a stir at the conference 2 years ago with her 'four seasons' scenarios of the HIV epidemic by 2025 (depending on how government, the private sector and civil society respond), was addressing HIV and AIDS, longevity and health issues affecting retirement. She was asked to speak on the impact of HIV and AIDS on the proposed NSSF, aimed at broadening the retirement savings net in South Africa. 'The big question is how to design a social security system that balances the provision of death and disability benefits on the one hand and retirement benefits on the other hand in a country where the average life expectancy at birth is 51 years,' she says.

### **AIDS impact on low-income earners unknown**

Government is trying to catch a huge group of low-income earners who cannot afford current medical-aid or retirement-fund benefits in a massive social security net – when many of them 'might not even make 50,' she adds.

The full impact of HIV and AIDS on this group of people, many of whom are self-employed or belong to small companies, has never been assessed. Most needed is a broadening of social security while encouraging job creation and protecting the disposable income of poor households. Nicolay warns that any social security financing arrangement that radically disrupts the financial protection that the poor have through current savings arrangements will cause panic.

She says there has been 'a huge outflow' of money in the industry, partly owing to poor communication on intended social security reform. People are worried that they will be forced to take out annuities in future and be prevented from withdrawing their



retirement savings for life crises when they leave their employer.

'South Africans often withdraw their savings before retirement to educate their kids, provide income in times of illness and death or buy a small business. Fear of not having access to these savings in future is currently worsening the outflow,' she explains.

This is aggravated by HIV and AIDS and the accompanying stigma, fuelling unemployment and draining 34% of household expenditure in affected families. While Metropolitan was 'very sensitive' to the interests of low-income earners who need access to savings for life crises, it had to emphasise the crucial importance of preserving funds, she said.

### **Retirement funds used for emergencies**

Many middle- and higher-income classes in South Africa also withdrew from their retirement savings during their working lives, leading to inadequate financial protection in retirement. It was 'common knowledge' in the insurance industry that if you cashed in the retirement savings of the first 10 years of your career, it would reduce your pension by around 40%.

'We want to reduce people's dependency on government when they retire by forcing them to save

throughout their lifetime. Yet if they do that and end up not having enough money to look after the sick and jobless on their way there, it will increase the social burden on the state.'

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Fortunately, government recognised this and spoke in its discussion papers of the urgent need to broaden social security while encouraging job creation and protecting disposable income. When it came to HIV and AIDS, it was far cheaper to treat someone with antiretroviral therapy (ART) than to pay out a death benefit (typically 3 times one's annual salary). Nicolay compared the R6 000 cost of a year's ART versus paying out, for example, R45 000 in death benefits for a person earning R15 000 a year. Added to this were the medical costs of treating opportunistic infections, lower productivity and higher unemployment.

### **Upscaling prevention and treatment vital**

'It has to be cost effective to invest heavily in prevention and treatment

of employed people instead of giving them a fund that will pay out millions in death and disability benefits. The NSSF will then be able to focus more on saving and preservation for old age, as was the original intention,' she adds.

Nicolay hit headlines 2 years ago when she outlined her 'four seasons' 2025 AIDS scenarios with the 'Winter of discontent', featuring weak self-serving leadership, high crime and an AIDS response involving fake cures and corrupt systems.

She predicted continuous deaths in the workplace leading to companies closing down, with only 1 in 5 South Africans knowing their status by 2010 and the life expectancy remaining at 50 years. In stark contrast, the 2025 'Summer for all people' featured strong collaborative leadership committed to a developmental society, led by government, a focus on prevention with treatment, and care. Proactive business would be sustainable as the epidemic shrank, with up to 60% of people knowing their status by 2010 and only 7% of the employed population being infected by 2025.

An estimated 20% of all South Africans between the ages of 20 and 64 are currently HIV positive.

**Chris Bateman**