KOCH Consulting Actuaries cc

NEWSLETTER
(Number 100 – June 2019)

Vital statistics:

CAP determination 30 April 2019:	R281271
CPI year-on-year April 2019:	4,4%
RSA long bond yield May 2019:	8,4%
Real rate of return (8,4 less 4,4):	4,0%
FNB Property Index March 2019:	-0,7%

Real rate of return: This has dropped from 4,3% per year at November 2018 to 4,0% per year at May 2019, but is still too high a rate to be sustained. The long bond rate appropriately dropped from 9,2% per year November 2018 to 8,4% per year May 2019. Long bond investors are tax free pension funds and governments who are not influenced by the tax damage suffered by the ordinary man in the street. The big institutions are well informed. That they trade long bonds at 8,4% per year suggests that they expect a long term inflation rate over the next 10 years of 8,4 less 2,5 = 5,9% per year. In reality their "prediction" horizon is at best about 3 years and the "black swan" phenomenon reduces even such predictions to little better than a weather report. The 5,9% per year prediction for inflation is also a reminder that the real inflation rate may be 1,5% higher than that reported by STATSSA.

Retirement funding: In *Boutell v RAF* (324/2017) [2018] ZASCA 90; 2018 (5) SA 99 (SCA) (31 May 2018) it was ruled that contributions to a retirement annuity fund must be deducted when calculating loss of earnings. Contributions to a retirement annuity fund are tax deductible savings, the idea being that tax will be paid when the member eventually retires and draws a retirement annuity. The Court defied common sense and rejected the argument that a retirement annuity is the same thing as a private pension. The ruling is much to be regretted. Contributions to a retirement annuity fund are savings from current earnings towards provision for old age in the same way that contributions to a pension fund are savings towards provision for a retirement income. It has been authoritatively ruled that income saved is just as much income as that applied to living expenses (*Mariamah v Marine & Trade Ins* 1978 3 SA 480 (A) at 488/9). One way to circumvent the inequity of this *Boutell* ruling is to include in the actuarial calculations the annuity that would have been purchased had the claimant been able to work at full pay until normal retirement, and then deduct the reduced annuity to which the claimant is now condemned by his injuries.

Domestic workers: SweepSouth is a digital-booking cleaning service. They recently did a survey of 1300 domestic workers and reported an average wage for a domestic worker of R2699 per month which is way below the minimum wage which has been R20 per hour since January 2019, that is to say R3464 per month for a 40 hour week, which is R41568 per year excluding a thirteenth cheque. It seems that the survey did

not cover extra benefits in kind such as free board and lodging. The survey probably also included many persons working less than 40 hours a week. In some areas a reduced minimum wage of R15 per hour applies. STATSSA states that 1 million persons have reported their occupation as domestic worker. It is a major factor in job creation.

Real increases in earnings: A comparison of corporate earnings packages reported in the *Quantum Yearbook* for 2009 and 2019 shows that over the last 10 years corporate packages have averaged increases in line with inflation only.

Job grades: Industrial psychologists (IP's) repeatedly make the cardinal error of ascertaining job grade by comparing the claimant's known earnings with the earnings in the survey tables. The correct procedure is for the IP to identify job grade having regard to the claimant's job content and then to look see how claimant's earnings rank within the range of earnings for that job grade (with clear cut occupations such as "driver" the deviations can be quite surprising). Occupational therapists generally report job content extremely well and this information should be used by IP's to get an accurate grade. Psychometrics properly done by the industrial psychologist will give guidance as to the claimant's aptitude for higher graded posts. Predictions as to career path should be qualified by the percentage chances of achieving the stated levels. Different claimants have different aptitudes and a court should be wary of allowing an approach of "one size fits all" that is so often bandied by careless industrial psychologists.

STATSSA earnings vs Corporate Survey: In *Tshazi v RAF* (48702/2017) [2019] ZAGLDJ (17 May 2019) the Court was called upon to choose between the earnings reported in the *Quantum Yearbook* for the survey done by STATSSA and the predicted corporate survey amounts derived from FSA/Peromnes. The Court ruled in favour of the corporate survey earnings but qualified its decision with the words:

> "My rejection of the tool (table) used by Mr van Aarde does not entail that I must reject his evidence *in toto* nor, specifically, his criticisms as to the appropriateness of the tools (tables) used by Ms Talmud.

> "In my view these criticisms should be taken into account when considering the appropriate contingencies to be applied to the plaintiff's claim."

Deduction of State grant: In *Kapa v RAF* (1414_2013) [2018] ZALMPPHC 67 (7 December 2018) the Court ruled that the grant payments received by claimant since the accident should be deducted when calculating her loss of earnings: 'The grant is not paid to the plaintiff as a result of generosity, benevolence or charity by the state, but as financial assistance by the state due to the injuries sustained which caused a loss of income, but also in terms of the constitutional obligation to render social security to everyone in need of such assistance….There is no doubt in my mind that the payment of the disability grant leads to double compensation."

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