

# RAF vs. RABS: Some case studies

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## Synopsis:

- To compare by examples the actuarial components of a claim under RAF and RABS.
  - To highlight groups of claimants that will be better/worse off under RABS and to touch on some broader issues.
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## 1. RAF and RABS


The Road Accident Fund (RAF) is proposed to be replaced with the Road Accident Benefit Scheme (RABS). The draft RABS bill was published in May 2014 and the following table summarises some of the main differences:

RAF	RABS
<ul style="list-style-type: none"><li>➤ Provides lump sum compensation.</li><li>➤ Fault based system.</li></ul>	<ul style="list-style-type: none"><li>➤ Provides regular, reviewable, defined payments (rehabilitation may be required).</li><li>➤ No-fault system.</li></ul>
<b>Compensation provided for:</b>	
<ul style="list-style-type: none"><li>➤ Loss of income.</li><li>➤ Loss of support.</li><li>➤ Medical costs.</li><li>➤ Funeral claim.</li><li>➤ General damages.</li></ul>	<ul style="list-style-type: none"><li>➤ Income support benefit.</li><li>➤ Family support benefit.</li><li>➤ Health care services.</li><li>➤ Funeral benefit.</li></ul>

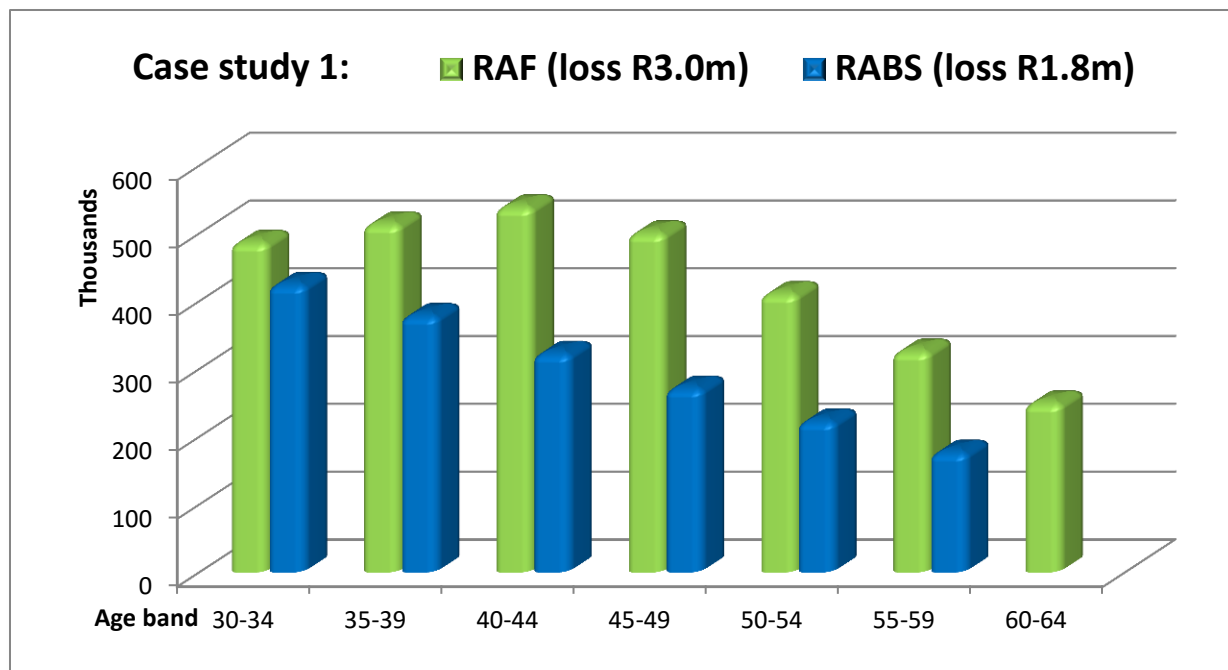
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The aim of this article is to look at the components of a RAF claim that are actuarially calculated and how the value of these benefits will be impacted under RABS. I consider two Loss of Income (LOI) case studies as well as a Loss of Support (LOS) case study. Other components of a typical claim such as general damages, medical and funeral costs are usually not actuarially determined and therefore not considered in further detail (although there are clear differences between RAF and RABS).

## 2. Case Study 1

<b>Loss of income (Office worker)</b>		<i>Accident date:</i>	<b>2015</b>
		<i>Age at accident:</i>	<b>30</b>
		<i>Earnings- Uninjured:</i>	<b>R100 000 pa in 2015, R200 000 pa at age 45</b>
		<i>Earnings- Injured:</i>	<b>Unemployable</b>

The graph below illustrates the loss profile (in current terms) in 5-year intervals, under RAF and RABS respectively. A comparison of the total loss<sup>1</sup> is also provided:



### Key points

- RAF losses are higher throughout.
- RAF: allowance is made for promotional growth; RABS: no promotional allowance.
- RAF: benefits cease at assumed retirement age of 65; RABS: benefits cease at 60.
- RAF: loss based on full earnings; RABS: loss roughly based on 75% of earnings.
- RAF: no waiting period; RABS: no compensation for 1<sup>st</sup> 60 days (waiting period).

## 3. Case Study 2

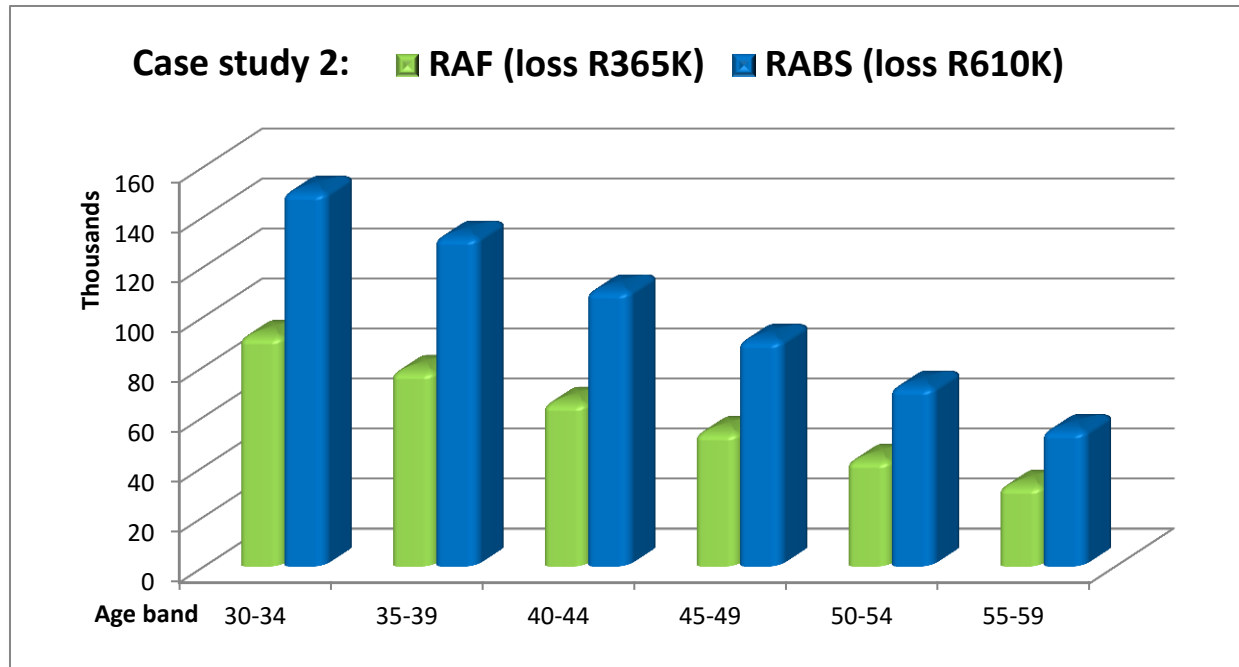
**Loss of income  
(Unskilled  
worker)**



<i>Accident date:</i>	<b>2015</b>
<i>Age at accident:</i>	<b>30</b>
<i>Earnings- Uninjured:</i>	<b>R20 000 pa</b>
<i>Earnings- Injured:</i>	<b>Unemployable</b>
<i>Expected retirement age:</i>	<b>60</b>

The graph below illustrates the loss profile (in current terms) in 5-year intervals, under RAF and RABS respectively. A comparison of the total loss<sup>1</sup> is also provided:

<sup>1</sup> The RABS compensation is paid in installments, but for illustration has also been capitalised on the same basis to aid comparison. Under RAF no allowance was made for contingencies or merit apportionment and under RABS it was assumed the payments would increase by inflation, but would not be altered, stopped or suspended.



**Key points**

- RABS losses are higher throughout.
- RAF: loss based on actual earnings; RABS: loss based on 75% of Average Annual National Income<sup>2</sup> (AANI)
- AANI will apply as minimum earnings under RABS, including the unemployed or economically inactive individuals.

## 4. Case Study 3

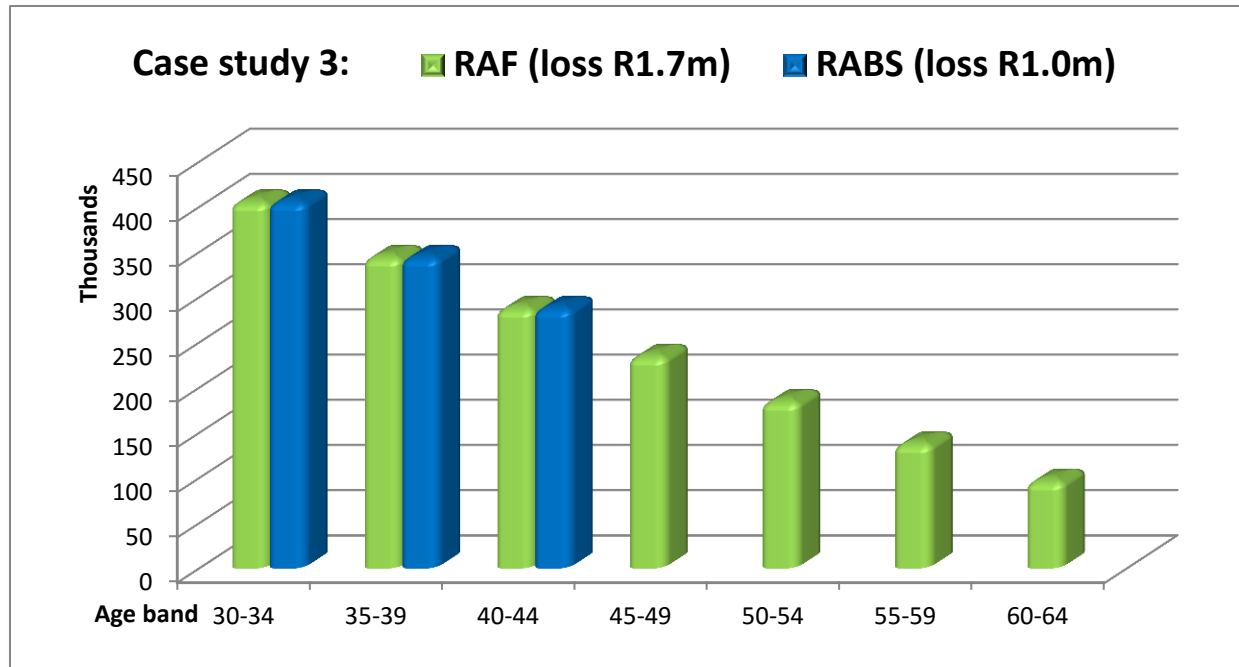
**Loss of support  
(Surviving spouse)**



<i>Accident date:</i>	<b>2015</b>
<i>Deceased's age at accident:</i>	<b>30</b>
<i>Spouse's age at accident:</i>	<b>30</b>
<i>Deceased's earnings:</i>	<b>R200 000 pa</b>
<i>Spouse's earnings:</i>	<b>Nil</b>
<i>Expected retirement age:</i>	<b>65</b>

The graph below illustrates the loss profile (in current terms) in 5-year intervals, under RAF and RABS respectively. A comparison of the total loss<sup>1</sup> is also provided:

<sup>2</sup> AANI is R43 965 pa in 2014 terms.



**Key points**

- RAF total loss exceeds RABS total loss (but similar for the first 15 years).
- RAF: compensation ceases after 35 years (when Deceased would have retired at age 65).
- RABS: compensation ceases after 15 years.

## 5. RABS impact on various groups

The following table illustrates some groups of claimants that may be better or worse off under RABS:

Worse off	Better off
<ul style="list-style-type: none"> <li>➤ Individuals with anticipated career growth.</li> <li>➤ Individuals with no or low earnings but anticipated to exceed AANI e.g. students, children.</li> <li>➤ If expected retirement after age 60 (LOI).</li> <li>➤ LOI based on only 75% pre-accident income.</li> <li>➤ LOI where individual is able to work (full post-accident earnings, inclusive of career growth, will be offset against RABS benefits).</li> <li>➤ If dependency is longer than 15 years (LOS).</li> <li>➤ Children who are dependent beyond age 18 (LOS).</li> <li>➤ RABS does not guarantee inflation linked benefits.</li> <li>➤ Those unable to prove earnings (if higher than AANI).</li> </ul>	<ul style="list-style-type: none"> <li>➤ Individuals not covered under RAF e.g. <ul style="list-style-type: none"> <li>▪ At fault individuals;</li> <li>▪ Broader class of vehicles covered;</li> <li>▪ Self-inflicted injuries (but creates moral hazard); and</li> <li>▪ Illegal activities covered.</li> </ul> </li> <li>➤ Unemployed, economically inactive or those earning below AANI.</li> <li>➤ Extended family of a deceased victim.</li> </ul>

- Individual with benefits not necessarily reflected on a payslip e.g. medical subsidies, free housing.
  - Overseas visitors, SA citizens not based locally.
  - Capping is more severe under RABS and could eliminate loss.
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## 6. Concluding remarks

The three simple case studies and table above illustrate that RABS will benefit some claimants but also penalize others. In practice many more complications arise, for instance when considering a loss of income case where there is residual earnings capacity, a loss of support case where the surviving spouse is also working etc.

It is not yet clear what the final RABS benefits will look like, and if any of the above issues will be addressed. As it stands, the RABS bill has a number of consequences for claimants, some intended but some appear unintended.

Finally, a number of important questions remain to be answered which include the following:

- Cost: Will RABS be cheaper and more cost effective than RAF?
  - Some features will increase costs e.g. no-fault system and introduction of AANI (which could significantly increase average claim size for a large proportion of low income claimants).
  - Some features will reduce costs e.g. reduction in certain benefits, inflation protection is not guaranteed and the impact of capping is more severe.
  - The net impact of the above is difficult to predict or model.
- Funding: RABS is intended to be fully funded, at the same time RAF will be in run-off for a number of years requiring parallel funding.
- The medical tariffs under RABS have not been published. It is not clear if any agreements are in place with service providers yet.
- Is the relevant infrastructure and agreements in place to provide rehabilitation and related services? Will rehabilitation reduce the cost of claims, or be wasteful expenditure when unsuccessful?

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