MONEY MARKETING
31 Oct 2014, p.5

Richard Krepelka

Fiduciary Matters

Brought to you by the Fiduciary Institute of Southern Africa (FISA)

Beneficiary funds - educating your children if you die

Many parents with minor children make provision in their wills for a testamentary trust to be set up in the event of their death. This is so that assets can be received in the trust and managed by trustees in order to maintain and finance the child's education until he or she reaches majority.

Other parents may choose to take out extra insurance on their life policy to provide for education fees to be paid in the event of death.

There is another option available to members of retirement funds, of which most members are still unaware – beneficiary funds.

Members of beneficiary funds benefit from economies of scale

These funds, which are strictly regulated under the Pension Funds Act, were created by government in 2009 to ensure the protection of minors' assets. Specifically, beneficiary funds are designed to accept section 37C lump-sum death benefits from your retirement fund should you die and leave behind minor dependants. Earlier this year, the Financial Services Laws General Amendment Act provided for beneficiary funds also now to receive so-called unapproved benefits in addition to approved benefits, meaning that death benefits paid out of group life policies may now also be paid into beneficiary funds instead of into an umbrella trust.

How does it work?

How it works is that if you are a member of a retirement fund, you have a right to state on your beneficiary nomination form that the trustees of the retirement fund consider the use of a beneficiary fund.

An account will be set up for your child in an umbrella beneficiary fund. Depending on their age and circumstances, an amount will be paid to the child's guardian as a monthly income for the child's subsistence. Then, on request, the beneficiary fund will make capital payments, such as for school fees, medical costs and the like.

In our experience, around 70% of the monies in the beneficiary funds administered by us are used to pay for children's education.

Not all retirement funds have yet appointed beneficiary fund administrators. If your fund has not done so, you have a right to ask them to do so and make sure that this option is available to you as a member.

If you should pass away while you are still employed and if you have stated on your nomination form that the trustees consider the use of a beneficiary fund, they will ascertain who your dependants are and, in their discretion, allocate the death benefits accordingly.

Once assets are paid into a beneficiary fund, the trustees of the beneficiary fund take over the fiduciary responsibility from the retirement fund trustees.

At 18, the child becomes a major and is entitled to the remaining capital in the beneficiary fund. We offer advice to these young adults, some of whom choose to leave their capital in the beneficiary fund to help pay for their tertiary education or buy a car. They have built a relationship of trust with Fairheads by then and are unlikely to find an alternative investment which is as cost-effective.

Because of their umbrella structure, members of beneficiary funds benefit from economies of scale. In addition there are tax advantages. All death benefits are taxed according to the tax sliding scale for death benefits in the hands of the deceased.

Once paid into the beneficiary fund, the amount is tax-free throughout and also tax-free at the time of paying out when the beneficiary reaches the age of majority. Beneficiary funds therefore provide a useful alternative for parents to consider when wanting to ensure their children continue to receive an education if the breadwinner should die.

This article was written by Richard Krepelka, FISA member and CEO of Fairheads Benefit Services

FISA is a non-profit organisation that represents practitioners in the fiduciary industry and sets high minimum standards to protect the public's interests. Activities of FISA members include but are not restricted to the drafting of wills, administration of trusts, beneficiary funds and estates, tax and financial advice and the management of client funds. FISA has over 750 individual members who collectively manage in excess of R280 billion. Membership is open to any professional who meets the membership criteria.