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YOUR MONEY SORTED

YOUR ASSETS AFTER YOUR DEATH

Here's what happens to six different investments when you die

MOST of us assume that when we die our assets will be distributed according to what we stipulated in our wills. Unfortunately, it doesn't always work that way. People or companies can claim the debt you owe them from your estate.

After deductions such as these, as well as estate duties and the executor's fee, your loved ones may walk away with much less than what you imagined they'd inherit.

1 LIFE INSURANCE

This money should be paid directly to beneficiaries named in the policy. It isn't part of the estate administration, so executor fees aren't charged. But it isn't true that estate duty is never levied on life-insurance policies.

Surviving spouses usually should not pay taxes if it's left to them but other beneficiaries might. If you don't appoint beneficiaries, it becomes part of your estate and estate duty and executor fees can apply.

2 ENDOWMENTS

This is quite a complex product in that it doesn't have to come to an end when you die. The person investing in the endowment should decide who the "life assured" is.

The life assured is the person on whose life the endowment is issued – the investor or another person. The endowment comes to an end when the life assured dies, at which point the investment will be paid out to beneficiaries appointed by the investor. The money will be paid out directly, so the beneficiaries don't need to wait for the estate to be wound up, says Sonja Smit from Allan Gray.

No executor's fees will be paid on this amount if the proceeds are paid directly to beneficiaries, but it will still form part of the estate for the calculation of estate duty.

3 RETIREMENT FUNDS

The Pension Funds Act applies to all retirement funds. It states that the trustees are responsible for deciding how your retirement fund money is distributed, if you die before retiring.

It's their decision to make even if you've made nominations to the fund or stipulated people in your will. Your beneficiaries will be considered, but the trustees need to make sure it's a fair distribution, Smit says. The trustees must identify and contact all your dependents, such as spouses, children, anyone proven to be financially dependent on you at the time of death, anyone entitled to maintenance, and even anyone who may in future have become financially dependent on you if you hadn't died.

Although trustees aim to complete the process quickly, the Act gives them at least a year to search for dependents. The process may take even longer, for example, if the deceased had more than one family unit, Smit says. Then the benefit is held in a money-market fund.

Dependents have options when it comes to how they receive their benefit. They can transfer it to a living or guaranteed life annuity, take a cash lump sum (which is taxable), or take a combination of a cash lump sum (also taxable) and a living or guaranteed life annuity.

The money doesn't become part of your estate so it's protected against creditors. Even if the deceased had been married in community of property, the fund's benefits are not subject to marital law, so it isn't part of the joint estate or subject to estate duty and executor fees.

4 ANNUITIES

It will depend on whether it's a living or guaranteed annuity. If you have a living annuity, the remaining investment value may be left to your beneficiaries.

It doesn't become part of the estate and isn't subject to estate duty and executor's fees. The beneficiary can take the death benefit (what investment companies call the part that pays out) as a lump sum, transfer it to another living annuity, or a combination of both.

The cash lump sum may be taxable, so get expert advice first. If no beneficiaries are appointed or if they can't be traced, the death benefit becomes part of the estate. Then estate duty and executor's fees can be levied.

Guaranteed annuities usually end when you die, so nothing is transferred, Smit says.

5 UNIT TRUSTS

These don't require a beneficiary, but you can bequeath the proceeds in your will, which means they'll form part of your estate and might be subject to estate duty. The executor will distribute all your assets, including your investments, among your creditors (if there are any) and heirs.

TIP

The division of tax-free savings depends on the type of investment the money was held in. If it was part of a unit trust or a savings account with a bank, it will become part of your estate, which means estate duties and an executor's fee will be charged on it.

6 BANK SAVINGS

This amount can be bequeathed in your will and will be distributed according to your wishes. But as with unit trusts, the money is subject to estate tax and not protected from creditors.

20%

The percentage in estate duty Sars charges on the first R30 million of the dutiable amount of an estate.

It charges 25% estate duty on the amount exceeding that, after taking into account a deduction of R3,5m against the net value of the estate and any other allowable deductions.

3,5%

The executor's fee as stipulated by the Administration of Estates Act. It's calculated from the gross estate value on the date of death (excluding assets that fall outside the estate), plus VAT.

GET MORE ADVICE:

* Tax tables: The South African Revenue Service: sars.gov.za.
* Find an estate and will expert at the Fiduciary Institute of Southern Africa: fisa.net.za
* The Financial Planning Institute of South Africa: fpi.co.za