



# Umbrella trusts and beneficiary funds: Managing relationships at scale

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## Background on Umbrella Trusts & Beneficiary Funds

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- Umbrella Trusts established to receive and hold death benefits came about in the late 1980s
- Expanded throughout 1990s
- Fidentia in early 2000s
- Establishment of Beneficiary Funds in 2009
- Beneficiary Market is around R17b (as at Feb 2021)



# What is the difference between an umbrella trust and a beneficiary fund

<b>Legal Structure</b>	A legal arrangement where a person, known as a trustee, holds or administers property separately from his own, subject to the provisions of a trust instrument, for the benefit of beneficiaries.	A pension fund organisation that is set up to receive, administer, invest and pay employment-related death benefits for the benefit of a deceased employee's beneficiaries, usually minor children.
<b>How does it work?</b>	<ul style="list-style-type: none"><li>• It is set up under a trust deed which is a document that sets out the purpose of the trust, who the beneficiaries are and how the property is to be administered.</li><li>• It is registered with the Master of the High Court and with the South African Revenue Service (SARS) as a taxpayer.</li><li>• A beneficiary's settlement (a beneficiary's investment in the trust) is administered according to the terms of the trust deed and the deed of settlement relating to that settlement.</li><li>• Each settlement for a particular beneficiary held in the umbrella trust is administered separately for that beneficiary.</li><li>• A settlement will come to an end when the settlement deed provides for it to come to an end (e.g. when beneficiaries reach the age set out in the trust deed and any remaining benefit is paid out).</li></ul>	<ul style="list-style-type: none"><li>• The fund has been registered with the Financial Sector Conduct Authority (FSCA) and approved by SARS.</li><li>• The benefit is invested and the fund makes monthly payments to legal guardians and caregivers to help with the child's general living costs. Additional amounts for expenses such as school fees and medical costs may also be paid.</li><li>• When the beneficiary turns 18, he will become entitled to the balance of the capital that is in the fund. The beneficiary can request that the benefit remain in the fund.</li></ul>



# What is the difference between an umbrella trust and a beneficiary fund

<b>What and who regulates it?</b>	<ul style="list-style-type: none"> <li>• The Trust Property Control Act and the Master of the High Court.</li> </ul>	<ul style="list-style-type: none"> <li>• The Pension Funds Act and the FSCA.</li> </ul>
<b>What are the regulatory requirements?</b>	<ul style="list-style-type: none"> <li>• The umbrella trust deed may provide for the trust to be audited annually.</li> <li>• The trustees are not required to submit any reports to the Master of the High Court.</li> </ul>	<ul style="list-style-type: none"> <li>• The fund is subject to the same strict regulatory requirements as retirement funds, such as annual audits and submitting reports to the FSCA.</li> </ul>
<b>What are the costs?</b>	<p>Some of the costs include:</p> <ul style="list-style-type: none"> <li>• Capital introduction fees.</li> <li>• Governance fees, e.g. trustee and audit fees.</li> <li>• Fund expenses.</li> <li>• Administration fees.</li> <li>• Investment fees.</li> </ul> <p>For example, the Effective Annual Cost* (EAC) for a 3 year old child terminating at age 18 is:</p> <ul style="list-style-type: none"> <li>• R100 000 – 2.61% pa</li> <li>• R500 000 – 2.48% pa</li> </ul> <p>*Assuming no advice fees are paid</p>	<p>Some of the costs include:</p> <ul style="list-style-type: none"> <li>• Capital introduction fees.</li> <li>• Administration fees.</li> <li>• Reporting and governance fees.</li> <li>• Fund expenses.</li> <li>• Investment fees.</li> </ul> <p>For example, the EAC* for a 3 year old child terminating at age 18 is:</p> <ul style="list-style-type: none"> <li>• R100 000 – 2.61% pa</li> <li>• R500 000 – 2.48% pa</li> </ul> <p>*Assuming no advice fees are paid</p>
<b>How is the benefit taxed?</b>	<ul style="list-style-type: none"> <li>• Trusts may receive benefits from a variety of sources and may or may not be taxed depending on the source of the benefit.</li> <li>• In a vesting trust all income and gains automatically vest in the beneficiaries for tax purposes and the benefits are not subject to tax in the trust.</li> <li>• Income and gains that vest in beneficiaries may be taxable in their hands.</li> </ul>	<ul style="list-style-type: none"> <li>• The benefit is taxed before it is paid into the fund.</li> <li>• The benefit in the fund is not taxed.</li> <li>• Payments out of the fund to the beneficiary are tax free.</li> <li>• Additional amounts for expenses such as school fees and medical costs may also be paid.</li> <li>• When the beneficiary turns 18, he will become entitled to the balance of the capital that is in the fund. The beneficiary can request that the benefit remain in the fund.</li> </ul>



# What is the difference between an umbrella trust and a beneficiary fund

<b>What are some of the advantages?</b>	<ul style="list-style-type: none"><li>• The trust can receive money from sources other than employment-related benefits.</li><li>• As it is an umbrella arrangement and a new deed does not need to be registered, the Trust is available immediately – no need to wait for a new trust deed to be registered for the trust to receive money.</li><li>• The trust deed will determine the date on which the beneficiary becomes entitled to the capital.</li></ul>	<ul style="list-style-type: none"><li>• It is strictly regulated.</li><li>• The benefit paid by the fund is not taxed.</li><li>• It is cost effective.</li></ul>
<b>What are some of the disadvantages?</b>	<ul style="list-style-type: none"><li>• Income and gains that vest in beneficiaries may be subject to tax in the hands of the beneficiaries at their applicable tax rates.</li><li>• Trusts are not subject to the same regulatory framework that beneficiary funds and carry no reporting obligation to the FSCA. However, the MMI Umbrella Trust requires an annual audit and is subject to a governance framework described in the trust deed itself.</li></ul>	<ul style="list-style-type: none"><li>• It can only receive employment-related death benefits.</li><li>• The beneficiary becomes entitled to the capital when he turns 18.</li></ul>



## Volume business

842,000  
calls in  
2020  
(450,000  
inbound,  
392,000  
outbound)  
in 2020

880,000  
capital  
assistance  
payments  
(R4.5b)  
since 2012

5.4 million  
Monthly  
Income  
Payments  
(R3.9b)  
since 2012

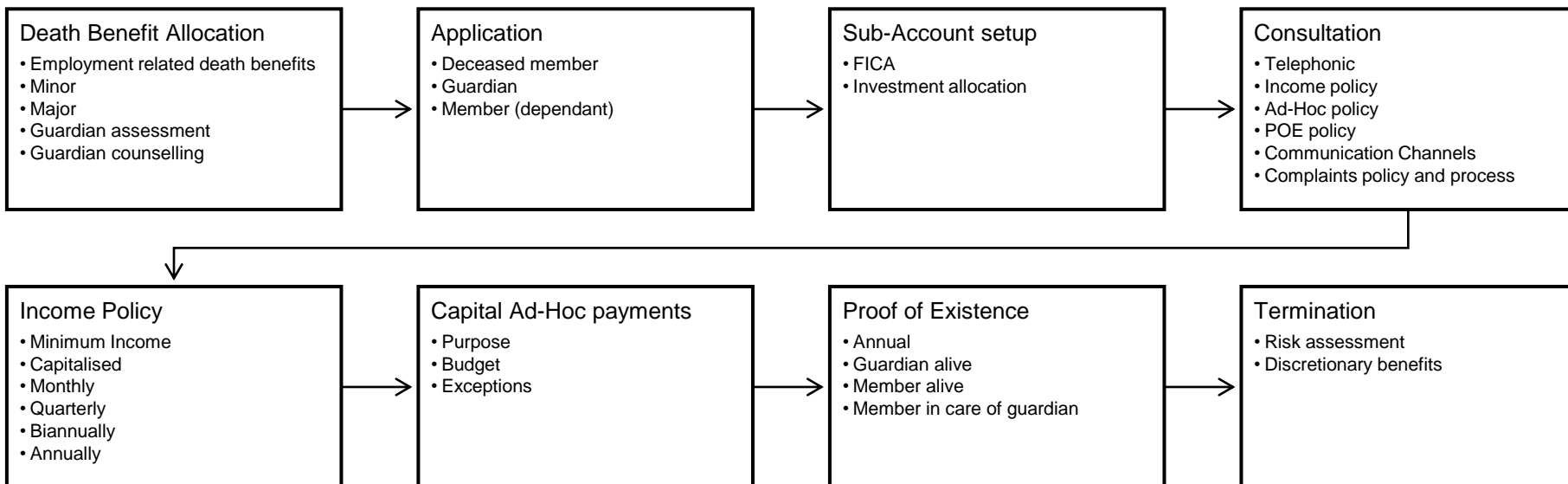
182,000  
Servicing  
Requests  
in 2020

930 000  
SMSs  
since 2012

175 000  
clients  
terminated  
since 2012



# What does a beneficiary fund or umbrella trust do?



**Legal & Technical**

**Communication**

**Accessibility**



# Death Benefit Allocation

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- Beneficiary funds can receive “...benefits that became payable in terms of the employment of a member on behalf of beneficiaries, payable on the death of more than one member of one or more pension funds” *para c of the definition of a Pension Fund Organisation, PFA*
  - Fund credit
  - Group risk
  - Accrued employment benefits (leave pay etc)
- Primarily for minors or those with disabilities
- Can accept majors allocation with consent
  - Some benefit in considering beneficiary fund as part of the distribution given tax exemption
- Guardian Assessment
  - Capable of managing lump sums?
  - Will the money be used in the best interest of the child, for their benefit?
- Guardian Counselling
  - Meet with guardians and caregivers to discuss the beneficiary fund





# Application Process

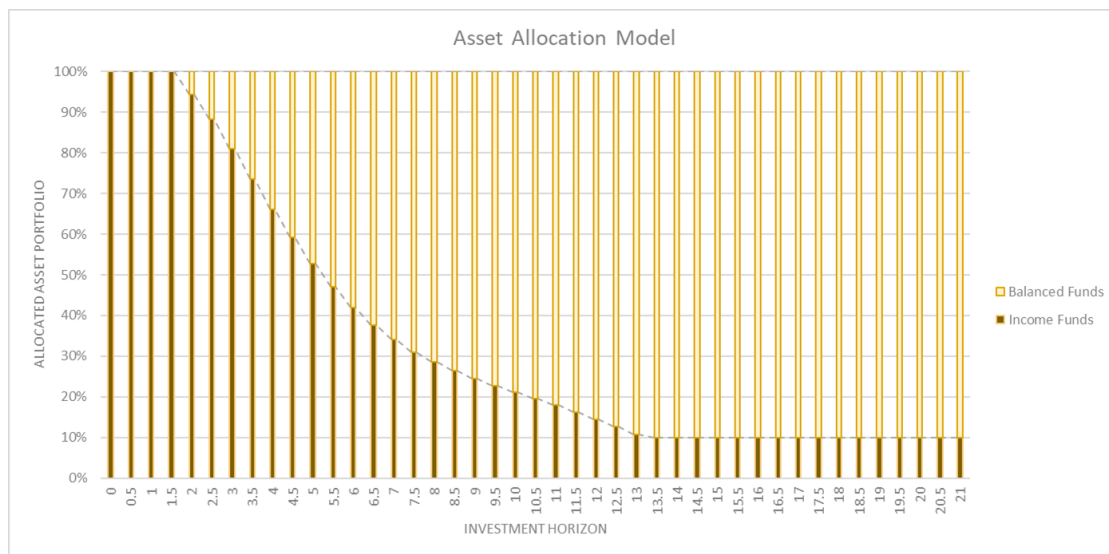
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- Online portal for transfer of information
- Supporting documents
  - Deceased member
  - Guardian (FICA requirements)
  - Member (birth certificate)
- Fraud prevention & detection
  - FICA
  - AML
- Governed by strict SLA



# Sub-Account Setup

- Each member has their own sub-account, separately invested and accounted for
- Compliance Assessment (early fraud detection & prevention)
- Investment Allocation
  - Based on approved trustee Investment Policy Statement
  - Lifestage model allocating a higher proportion of growth assets to younger members
  - Regulation 28 compliance
  - Supports multiple investment managers
  - Reblend process (reblend conducted annually)
  - Liquidity maintained daily





# Consultation

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- Key to effective administration
- Outbound call to every guardian
- Detailed conversation covering
  - Income policy and how apply for increase or decrease
  - Capital Ad-Hoc policy and how to claim capital
    - Capital budget
    - Priority is educational related expenses
  - Importance of staying in contact and completing annual Proof of Existence
  - Communication and service channels
  - Complaints policy & process



# Income Policy

## ■ Initial Income Allocation

- Capitalised (no income paid to caregiver) as nominated by transferor fund with all investment returns reinvested
- Fixed Amount nominated by transferor retirement fund (with or without CPI adjustment)
- Discretionary amount of 5% of Capital Introduced per annum, paid monthly (loosely based on a living annuity drawdown rates)

## ■ Minimum Income for discretionary cases is aligned to Child Grant (currently R460 pm) annually

## ■ Income Changes

- Guardian can request to have income reinvested or reduced
- Guardian can apply to have income increased, however requires budgeting exercise to be conducted and must be approved by Trustees. Preference is generally to opt for capital requests

## ■ Income frequency can be monthly, quarterly, biannually, annually

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**Income Projection**  
Date: 30 September 2017  
Consultant: David Hurford

Member Name: Chuma  
Retirement Fund: Corporate Selection Suite of Umbrella Funds  
Date of Birth: 4 September 2012 (Aged 4 at inception)  
Start Date: 1 June 2017

Asset Allocation at Inception	Rate of Return	Amount Invested	Allocation Split
Cash - Stanlib Institutional Money Market: Benchmarked to 0%	0.00%	R 37,256.53	15%
Income Fund - Prudential Income Provider Fund: Benchmarked to CPI plus 2%	0.00%	R -	0%
Stable - Prudential Inflation Plus Fund & Coronation Balanced Defensive Fund: Benchmarked to CPI plus 5%	0.00%	R 213,119.18	85%
Balanced Fund - Coronation Balanced Fund: Benchmarked to CPI plus 6%	12.00%	R -	0%

**Allocation Split**

Termination Age	18
Capital introduced	R 250,000.00
Capital at termination	R 25,020.43
Capital adjusted by inflation (0.0% per annum)	R 555,277.26
Income Type	Fixed
Income (per month)	R 1,560.26
Total Income Paid	R 372,143.09
Capital preservation (%) against capital introduced	10%
Capital preservation (%) against inflation adjusted capital	5%
Capital Assistance paid	R -

This projection is based on the retirement or provident fund trustee's instruction to the administrator and takes into account the capital introduced, the age of the member or beneficiary, the termination date of the fund or trust and any regular income payments made during the life of the fund or trust. The projections are based on historical investment returns and do not represent or guarantee future investment returns, which may vary during the life of the fund or trust. Performance of investments is subject to a variety of factors, including but not limited to the capital amount introduced into the trust, the age of the beneficiary, the application of the current asset allocation model and the growth of the underlying assets. This growth may be influenced by inflation levels in the economy and other prevailing market conditions. The investment allocation is based on a life stages approach, taking into account the age of the member or beneficiary as well as the investment time horizon. The model is designed to provide a reasonable regular income as well as long term capital preservation, where applicable. The investment allocation is rebalanced during the member or beneficiary's month of birth annually. This projection does not take into account future unscheduled financial assistance payments. Any educational, medical or other costs related to the well-being of the member or beneficiary will be assessed accordingly and paid from the capital of the fund or trust. This projection is based on the current fee structure. Note that the capital adjusted by inflation is provided for illustrative purposes only.

Any increases in the regular payment, if an instruction is received from the board of trustees after the setup of the beneficiary fund, cannot be considered at the time of this projection. The information contained in this document does not constitute advice in terms of the Financial Advisory and Intermediary Services Act No 37 of 2002 as amended (FAIS) by Fairheads Benefit Services (Pty) Ltd. Any legal, technical or product information contained in this document is subject to change from time to time.

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# Capital Ad-Hoc Policy

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- Board approved policy
- No cost
- Purpose
  - Priority given to education related requests
- Annual Capital Budget
  - How much can be paid, per annum, escalated by 10% per annum, so that the member is left with 30% residual at termination, taking into account income payments and assuming an investment return, and CPI of 6%
- Exceptions
  - Escalated to Trustee for decision
- Payment made directly to provider of product or service
- Annual Education Allowance
  - For guardians and caregivers who have a compliant, risk rated track record of caring for the member
  - Paid in January each year



# Proof of Existence

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- More than just a Home Affairs check
- Used to confirm
  - Guardian is alive
  - Member is alive
  - Member is in the care of the guardian
- Collection of information
  - Members wellbeing
  - Progress through schooling
  - Updated contact information
- Income Suspension
  - August of each year
  - Income back payments once POE confirmed



# Termination

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- Age 15 Process
  - Guardian and member counselling
- Age 18 Process
  - Letter of Instruction
  - Member counselling
- Risk Assessment
  - Matching all information to source documents
  - Strict security checks



# Communication & Accessibility

- Active dialogue between us and clients
- Plain, simple language
- Guardian Counselling
- New Money Consultations
- Assessment of requests at individual level with telephonic consultation
- Written communication in 3 predominant languages
- Omni channel accessibility
  - Contact Centre
  - Walk-in centres
  - Document Collection Service (DCS)
  - Field Agents
  - Guardian Roadshows





I am learning



I am free



I am confident



My future is bright

# Thank you

## Regulatory Information

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