Lobby group calls for changes to death benefits

by Evan Pickworth, 14 May 2013, 07:53

AN INDUSTRY interest group, which includes mine worker unions, is lobbying the government to make tax changes in the next year in order to improve death benefit payouts to the beneficiaries of blue collar workers, who — more than their well-heeled counterparts — are more likely to die before retirement.

The aim is to deepen the use of beneficiary funds to help orphans and dependants left behind when a worker dies before retirement.

More than 40 people were killed in last year’s wildcat platinum mine strike, and the Fidentia scandal fleeced thousands of widows and orphans out of pension money.

Industry practice could see the orphans and dependants of Marikana miners, for example, getting a worse deal than wealthier taxpayers. The blue collar fund would include the life policy portion, making it subject to tax, while higher income earners are able to structure their tax so that the life portion paid by the employer is largely excluded.

"We are in discussions with the Treasury and the Financial Services Board and we are putting together a motivation," development director at Fairheads Benefit Services Giselle Gould said on Monday.

Fairheads, a financial services firm, is driving the lobby, together with along with mineworker unions and the South African Commercial, Catering and Allied Workers’ Union and pension lawyers.

The lobby group wants the Treasury to raise the tax exemption level for all lump-sum death benefits above R318,000 as the average death benefit is about R500,000. The industry group wants the limit increased to R500,000-R600,000 as raising the tax-free limit would boost the quantum available for the dependants of deceased retirement fund members.

They also want the government to make an exception for beneficiary funds by increasing the age at which benefits need to be paid out from 18 to 21 as it is not uncommon for service providers to pay out R100,000 or more on termination of accounts when a child reaches majority. Yet the average 18-year-old in South Africa is seen as not being financially mature enough to invest or use large sums of money responsibly.

"Blue collar workers, in particular, are at a relative disadvantage as their life expectancy is statistically lower, implying that they are more likely to die before retirement.

"If they are over the tax-free limit of R318,000, blue collar workers are taxed on a combination of their retirement fund credit (so-called approved benefits) and group life benefits (so-called unapproved benefits)," said Ms Gould.

Pension fund attorney and director of Jonathan Mort Inc Jonathan Mort said because the death benefit payable by a retirement fund was principally to meet the financial needs of the deceased member's dependants, it was important that the person or entity which managed the death benefit did so prudently.

"Most of these financial dependants are usually the children of the deceased member, and because of the relatively low level of financial skills in SA, coupled with the not uncommon circumstance of parentless households, the necessity of an entity such as the beneficiary fund serves a very important social need specific to South Africa," he said.

Although the migration of umbrella trusts into beneficiary funds in a cost-effective and tax-efficient manner is still needed, beneficiary funds have been successful in meeting social needs.

Umbrella trusts fall under the Trust Property Control Act, whose regulation was not sufficient to prevent the Fidentia scandal, where 47,000 widows and orphans of miners killed in accidents, and other beneficiaries, were fleeced out of R1bn. Fairheads Benefit Services CEO Richard Krepelka said beneficiary funds were playing a largely unrecognised yet powerful role in education in South Africa.

"Orphaned children are being sustained and schooled through prudent management and investment of the funds left to them; at the same time guardians are being exposed to some basic financial planning principles, such as budgeting," he said.

Since January 2009, any approved death benefit may by law be paid into a beneficiary fund if trustees decide not to pay directly to the guardian.

Unapproved benefits (such as group life cover) continue to be paid into an umbrella trust, as these were not originally part of the retirement fund benefit.