

Considerations regarding a deceased loved one's retirement savings

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The death of a loved one is one of the most stressful events a person can experience. It is a difficult period and is far from the best time to make serious financial decisions, but in many instances the beneficiaries of retirement savings will require an immediate income and some of the decisions cannot be postponed. In this time of grief, uncertainty around how to ensure a sustainable income for yourself and your dependants, should not contribute to your anxiety.

Here are some practical considerations when dealing with your loved one's retirement savings:

Make sure that you ask for help.

Although the circumstances may be difficult, you don't have to do it alone. A financial adviser can help you determine what needs to be done. First, determine if your loved one had a financial adviser. If so, this should be your first port of call. A financial adviser will help you determine what needs to be done and can help you coordinate with the different institutions to finalise the retirement savings claims.

Have the right documents.

Typically, you will require the death certificate and / or notification of death document. Make sure that you have several copies of these documents.

Understand your options.

Retirement fund benefits generally fall outside of a fund member's personal estate and are not estate dutiable. There is a difference between pre-retirement solutions (such as pension, provident, preservation funds and retirement annuities) and post-retirement solutions (such as living and life annuities) when it comes to the death benefits. The most important difference is in

how the death benefit is allocated. For pre-retirement solutions, the final decision rests with the trustees of the retirement fund. With a living annuity the deceased would have decided who should receive the pay-out. With a life annuity (a conventional guaranteed annuity), the income will cease upon death unless the solution had an option to choose a fixed guaranteed term for payment.

Pension funds, provident funds, preservation funds and retirement annuity funds

The Pension Funds Act applies to all retirement funds and it states that the trustees of a retirement fund are responsible for deciding who receives the retirement benefits of a member [when](#) they pass away. There are various options available to the beneficiaries regarding how they can receive their benefit. Subject to the specific product rules, beneficiaries can transfer their benefit to a living or guaranteed life annuity, take a cash lump sum or take a combination of a cash lump sum and a living or guaranteed life annuity.

Living annuity

One of the key features of a living annuity is that the remaining underlying value of the investment can be left to beneficiaries. The death benefit from a living annuity is paid out to nominated beneficiaries and can be taken as a lump sum payment, transferred to another living annuity / guaranteed life annuity or a combination of both.

Guaranteed life annuity

A conventional guaranteed annuity is a contract between the insurer and the annuitant. If the solution allows, the person taking out a guaranteed life annuity may select a fixed guaranteed payment term and also appoint a nominee to receive the income until the expiry of this guaranteed term – in the event that the person taking out the guaranteed annuity should pass away before the term expires.

Tax is always a consideration.

If you should decide to take your benefit in the form of a lump sum (pre and post retirement) it will be subject to tax, in the hands of the deceased. Currently the first R500 000 of such a lump sum is tax-free (assuming no previous lump sums were received by the deceased). The balance will be taxed on a sliding scale between 18% and 36%. If there is more than one nominee or beneficiary who has elected to take a lump sum, tax will be allocated proportionally between the different nominees and/or beneficiaries.

Think critically about income.

If you need to ensure a sustainable income from your retirement benefits received, then you must consider all relevant products and solutions. You might be able to choose between either a living annuity or a guaranteed life annuity. A living annuity will offer you the flexibility of changing the

income annually between 2.50% and 17.50% as well as the option to leave a legacy for future beneficiaries. It is important to note that living annuities are subject to market fluctuations depending on the underlying investments you choose. A guaranteed life annuity will give you the option of a fixed income for the rest of your life, you can choose an annual escalation as well as a guaranteed term. While most guaranteed life annuities will cease once the annuitant has passed away, there is also an option to select a guaranteed life annuity with a capital pay-out at death.

In this time of difficulty, it is important to remember that all beneficiaries' circumstances differ and most of the decisions you need to make are not reversible. It is highly recommended that you do engage with an accredited financial adviser to assist you in selecting the best possible options to ensure the financial stability that your loved one would have wanted for you.

The death of a loved one is never easy, and you will have to make some of the decisions over a short period of time. Dealing with retirement funds and insurers at death can be complex, but there are many avenues available to you to help you make the best possible decisions for your future.

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