GRAY ISSUE

What happens to your retirement fund benefits when you die?

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There are only two certainties in life, death and taxes
– Benjamin Franklin

It is important for retirement fund members to understand what happens to their retirement benefits when they die to reduce any potential burden on their dependants and/or beneficiaries. Many retirement funds, including the Allan Gray Retirement Annuity and Preservation Funds, do not compel members to retire. As a result, many members never leave these funds, sometimes unwittingly causing issues for their dependants and beneficiaries, who may face a delay before they receive any benefits when the member dies.

Once members have passed retirement age they should make sure their retirement fund is still the appropriate product, rather than retiring, for example, into a living annuity. Then, if they remain members of the fund, they should make sure the fund has up-to-date information about their dependants and they should review their beneficiary nominations regularly.

To-do list for retirement fund members

1. Consider whether or not the retirement product is still appropriate for you

If you are currently invested in a retirement fund and have reached retirement age, we encourage you to examine your post-retirement investment options. Your decision may be influenced by the rules and processes around the allocation of your retirement benefits in the event of your death, which are very different for a retirement fund compared to a product that pays a pension, such as a living annuity. Of course, if you are uncertain about your investment decisions, and you are not sure what the best course of action is for your situation, you may be better off speaking to an independent financial adviser.

2. Supply your retirement fund with information about your dependants

Every retirement fund is governed by a board of trustees. The trustees are responsible for allocating retirement fund benefits in terms of Section 37C of the Pension Funds Act (the Act). Importantly, the Act favours dependants and overrides any provisions you make via your beneficiary nominations (see point 3) or in your Will, as pension benefits are expressly excluded from your estate.

The Act defines 'dependants' as spouses, children and anyone proven to have been financially dependent on you or entitled to maintenance, as well as anyone who may have become financially dependent on you had you not died.

To expedite the benefits' claiming process for your dependants, make sure your fund has all the information it requires about your dependants. This will reduce the time taken to finalise their claims. If you do not have any dependants, it is worthwhile providing your fund with a signed letter indicating that this is the case; this will speed up the claim's process. In all cases, however, the trustees are obliged to verify the information.

3. Keep your nominated beneficiaries up to date

While trustees need to consider dependants first, that is not to say that your nominations won't be taken into account, they will be – after your dependants have been considered. It is essential that you keep your beneficiaries up to date as the trustees will go by whatever is on record, even if it is a decade old.

It is useful to understand the differences between dependants and nominated beneficiaries. A nominated beneficiary is any party (natural person, trust or legal entity) whose details you provide to your retirement fund in writing indicating you would like them to be considered by the trustees for a possible allocation of the death benefit. An example would be a person who is not a dependant, such as a friend.

It is important to note that a nomination does not guarantee that this person will receive all or a part of the death benefit. According to the Act, the trustees must search for dependants and exercise their discretion when distributing the money; they cannot merely follow your nominations. This might be hard to get to grips with, but at its core the Act serves a social function. Its intentions are to protect dependency, even over the clear wishes of the member. This ensures that no one who was financially dependent on you is left without support.

4. Plan for the period of time it will take for the trustees to perform their duties, up to the payment of the benefit

In all instances, the trustees aim to distribute the death benefit as soon as possible, but allocating the benefit can be challenging. Depending on the complexity of individual circumstances and how long it takes to track down dependants, a death claim can take an extended period to finalise. The Act grants the trustees at least 12 months to search for dependants, but the timeframe for allocating the benefit depends on the completeness of the information provided, as well as the response time of the dependants.

Other factors can also influence the time taken. For example, if the member dies through unnatural causes and the police need to be involved, the trustees may not be able to pay any benefits, or make any decisions, until the case has been finalised or beneficiary involvement in the death has been ruled out. If there are no nominations and the trustees could find no dependants before the expiry of 12 months, a waiting period is sometimes required to give untraced dependants a chance to come forward.

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