EMPLOYEE BENEFITS

Beneficiary funds are taxed in the same manner as pension funds

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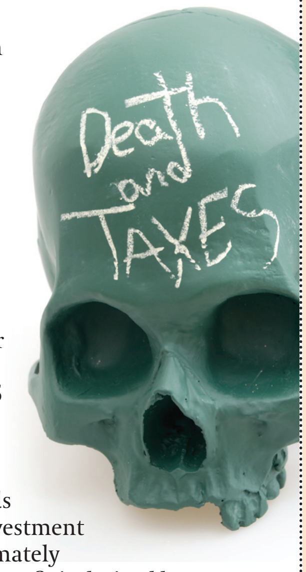
Tax breaks on death benefits aid beneficiaries



Following the death of an employee, employers that provided employee benefits under a free-standing, employer-owned death benefit policy are now able to pay those benefits into a beneficiary fund. Previously, death benefits that arose from unapproved group life cover could only be paid into a trust.

The change, permitted under the Financial Services Laws General Amendment Act No. 45 of 2013 which came into effect on 28 February 2014, allows unapproved group life benefits to be placed in beneficiary funds which are more tax-efficient investment structures than trusts. This ultimately ensures that greater financial benefit is derived by a fund member's surviving beneficiaries, dependents and nominees following the loss of their primary breadwinner.

The South African Revenue Services (SARS) defines unapproved benefits as employer-owned policy benefits derived from insurance policies, such as accident policies or group life policies that are not linked to, nor form part of, a retirement fund and are not subject to Section 37C of the Pensions Fund Act. As monthly contributions by employees to these policies are made after their salaries or wages have been taxed, any lump sum payout of the benefits on the death of the policy holder is therefore untaxed.

By contrast, SARS defines approved benefits as those that arise from monthly contributions that are paid before an employee's tax is deducted, such as pension or provident funds. The lump sum payout of death benefits in these circumstances is therefore taxed at the deceased's marginal tax rate.

Because beneficiary funds are taxed in the same manner as pension funds, once these benefits, approved and unapproved, are paid into a beneficiary fund, the investment income is tax exempt and any payments out of a beneficiary fund (capital or income) is tax free.

This is therefore a welcome amendment as beneficiaries stand to receive greater financial benefit. These funds also provide better protection to benefits than trusts as the legislation governing it has stricter controls and enforcement. In addition, surviving beneficiaries can now benefit from these funds almost immediately as policies of this nature are not subject to deliberation by a Board of Trustees and payment is effected to the nominated beneficiary as soon as all administrative requirements have been met.

As such, placing unapproved money into a beneficiary fund offers a practical solution with increased protection for the minor and should therefore be strongly considered as a preferable alternative to a trust.

SA corporates need to focus on financial well-being of employees

Employee wellness programmes have become an increasingly important part of the people management of many South African corporates. Most have defined wellness primarily in relation to health, focusing predominantly on exercise, healthy eating and health testing protocols. However, an area of wellness that has been sorely neglected is one that impacts significantly on the psychological wellbeing of employees and their families, and the economic wellbeing of employers – employee financial wellness.

In an increasingly competitive business context, the success of a company is directly dependent on the ability of staff to deliver on their responsibilities, to innovate and to create value. Stress and ill-health dampen the capability of staff to execute on their deliverables. It has been found that financial stressors play a far greater role in influencing employee psychological health and stress levels than health stressors – the traditional targets for employee wellness programmes.

Financial wellness increases productivity, reduces absenteeism and improves morale

There is a large body of research within the human resources domain that draws positive links between health-related wellness and reduced absenteeism and increased productivity. The links between financial wellness and these outcomes are now also being investigated, with results strongly suggesting that financial wellness plays a key role in increasing productivity and reducing absenteeism. There is also evidence indicating that financial wellness improves morale and reduces staff turnover.

The role of the employer

South African corporates are well positioned to influence the financial wellness of their employees by pulling the levers that affect the financial wellness system of employees, including:

- The provision of appropriate funding mechanisms that enable lifetime wealth creation
- Structuring these mechanisms to channel behaviours towards better and more informed financial decisions
- Providing financial literacy and education
- Reducing financial stressors by engaging with employees proactively on their financial pressure points.

Employers can play a significant role in improving the financial wellness of employees, especially with respect to retirement funding. This is an area where serious engagement is required from employers who have largely abdicated their role in empowering employees to secure a decent outcome when it comes to retirement planning and provision.

The results of the 2015 Sanlam Benchmark research indicates that the typical South African employee is reliant on their employer to provide the mechanisms through which to fund retirement savings and offer the necessary guidance when it comes to these financial matters.

The negotiating strength, group buying power and access to professional employee benefits consultants – that comes from participating in an institutional retirement fund – lends greater confidence to employees that they have access to a good financial product at competitive fees.

The rise of umbrella funds has provided employers with a pragmatic and effective option to deliver on retirement funding. Certain providers have structured their umbrella funds to cater for the diverse needs of South African workplaces by allowing for default solutions that meet the needs of the typical worker as well as the flexibility to customise solutions for more affluent members based on their specific needs.

Engaged employerism

More must still be done to improve corporates' ability to influence the financial wellness of employees, and the concept of 'engaged employerism' is gaining traction in the industry. This concept relates to employers reclaiming their critical role in nudging employees towards better financial wellness by making use of existing corporate infrastructure in conjunction with innovations from service providers and consultants.