CAPE PENINSULA UNIVERSITY OF TECHNOLOGY RETIREMENT FUND

PRINCIPLES USED IN THE DISTRIBUTION OF DEATH BENEFITS

Dear members and beneficiaries

Death, especially one's own, is not a subject one wants to think of or talk about. However, it is extremely important for all members to carefully consider this in order for the death benefits provided by the Fund to be finalised as soon as possible in the event of death. This note will hopefully assist members and beneficiaries by giving them a more detailed overview of the process and considerations that the Fund follows in the distribution of death benefits.

The first section deals with some background information regarding the disposal of death benefits and this is followed by the process the Board of Trustees follow in allocating the benefit; determining the amount payable to beneficiaries as well as finally, to determine the appropriate mode of payment to the beneficiaries. It is also important to let your family read through this document so that they too understand the process in the event of your death.

A. BACKGROUND INFORMATION REGARDING THE DISPOSAL OF DEATH BENEFITS

There is an obligation on you, the member, to notify the Fund as to who you wish the beneficiaries of your death benefits should be. We therefore encourage and urge all members to please assist the Fund in ensuring that the **Beneficiary Nomination form** be completed and sent to the Fund's office. If you have already submitted a Beneficiary Nomination form in the past and your domestic situation has altered, it is necessary for you to submit a new form to replace the old one. It is important for all members to list ALL dependents (all spouses, children, partners, parents), especially those who you support financially. You may also indicate the portions of the benefit you would prefer to be allocated to your dependents. Feel free to indicate on the form your reason for allocating your benefit as you have indicated. The Trustees must and will consider your nomination form. However, they are not bound to allocate the benefit in this way should your beneficiary nomination form be incomplete i.e. for example, perhaps not all financial dependents have been included on the form etc.

WHY IS IT SO IMPORTANT THAT THESE FORMS BE COMPLETED?

It is important for the Fund to have your beneficiary nominations as it will, on your death, serve as a guide to the Trustees in the allocation of your benefits; although, please note, the Trustees are required to determine and allocate death benefits in accordance with section 37C of the Pension Funds Act. This Act requires the Trustees to pay your death benefit to those persons that were financially dependent on you at the time of your death and/or those who could have become financially dependent on you had you not died. The Trustees thus have to go through a process of establishing all the parties that are financially dependent on you which may take some time. Your beneficiary nomination form will greatly assist the Trustees to speed up the process.

The information provided is treated as confidential by the Fund administrators and will only be made available to the Trustees when a claim is considered. Some members believe the requirements of the Act disempowers them as far as their wishes as to the allocation of benefits is concerned. Your nomination form must, however, be considered by the Trustees when an allocation is made. The Board must have a good reason to deviate from your written nomination and your beneficiaries are entitled to know their reasons for doing so.

Should you not have advised the Fund of all your dependents, this investigation (and hence payment) will take longer and might cause hardship for your family. The Trustees can only arrange payment of your benefit once they are aware of all the facts. Your list of dependants and beneficiaries is treated with the utmost confidentiality.

B. PROCESS TRUSTEES FOLLOW IN ALLOCATING THE BENEFIT AND DETERMINING AMOUNT PAYABLE TO BENEFICIARIES

Where a member has died, the Trustees must make every reasonable effort and take the necessary steps to find and make contact with all the member's dependants and nominated beneficiaries, in order that an informed decision regarding payment of benefits can be made.

Determining how to apportion death benefits amongst the various dependants and nominated beneficiaries who may survive a member is not easy at all. Section 37C of the Pension Funds Act gives the Trustees very wide discretionary powers in making payment of benefits. Due to this, extreme care and caution should be exercised when doing so. A thorough investigation of all claims is therefore extremely important.

Arriving at a decision may require Trustees to identify unknown dependants and many questions may arise. Some dependants may be easy to identify and contact, for example, a spouse, minor children or an aged parent living with the deceased. There may however be a previous spouse or children with other partners, who are still dependent on the deceased member for maintenance and perhaps these dependants are not easy to identify.

The deceased member's family and the employer would be questioned about the existence of other dependants. If the trustees have reason to suspect the existence of other dependants, they are required to take reasonable steps to trace and contact them.

Reasonable attempts at communication with such a person could include:

- Sending registered letters to an address where it is believed the dependant, or people who know of the whereabouts of the dependant, may reside;
- Making a few telephone calls;
- Putting advertisements in local newspapers;
- Enlisting the help of the local police, etc.

If no dependant is found within 12 months of the death of the member, and all reasonable steps have been taken to trace dependants without success, the Trustees will not be liable to pay a benefit to a dependant who subsequently surfaces. It should be noted that if a family member lied about knowing about the existence of a dependant, then the dependant may have a direct claim against them. As such, it is important to be honest and forthcoming with your assistance in identifying any dependants.

If the Trustees decide to wait for the full period of 12 months after the death of the member to pass before a final decision on the apportionment of benefits to dependants is to be made, any known dependants could go through a really tough time if they are in need of financial support. In such a case, the Trustees could consider paying a portion of the benefit due to such dependants. This decision would rest largely on the size of the total death benefit, the urgency of the need and the risk that still unidentified dependents might still surface.

When determining how to apportion the total benefit amongst the various dependants and nominated beneficiaries, many factors must be considered. These include:

- The relative wealth of each dependant and nominated beneficiary and the standard of living they are used to.
- The number of dependants each may in turn be responsible for.
- The size of the benefit payable as a result of the death of the member.
- The period of time for which the particular dependant would have continued to be dependent on the deceased member, if the member did not die.
- An assessment of a dependant's ability to become financially independent after the deceased's death. This may be influenced by factors such as the possible completion of a qualification, the possibility of qualifying for a grant of pension and / or the probability to find a job in future.

The Pension Funds Adjudicator has laid down guidelines for trustees to enable them to distribute a death benefit on an equitable basis; and these include:

- The age of the dependant;
- The relationship with the deceased;
- The extent of dependency;
- The financial affairs of the dependants including their future earning capacity or earning potential;
- The wishes of the deceased as can be inferred from his/her nomination and/or his/her last will.

It would be quite in order, for example where the benefit is not large, to decide that the full amount is to be paid to the deceased member's spouse and / or young minor children in his or her care, while making no payment to major children or nominated beneficiaries. Disappointed beneficiaries, even if they were nominated by the deceased, who do not receive a benefit, have no claim against The Board of Trustees as long as the Trustees have made their decision in good faith and have applied their minds fairly to the matter.

Where a payment is made in respect of a minor, the Fund's practice is to pay these monies into a Beneficiary Fund for the benefit of such minor. This enable the guardian to draw down regular amounts to meet the needs of the minor until such a time that they reach majority.

C. DETERMINING THE APPROPRIATE MODE OF PAYMENT

Having made their allocation, the final duty of the Trustees is to determine the most appropriate manner in which the benefits should be paid to the dependants and/or nominees. Beneficiaries have a number of options available to them on receipt of monies payable in terms of Section 37 C of the Act. This of course depends on their age; relationship to member etc.
The way that the death benefit is paid is also regulated by Section 37C and currently allows for these options:

- Where the beneficiaries are minors, the trustees may pay the benefit to a **beneficiary fund***, to the parent/guardian of the minor or to a trust.

> *A Beneficiary Fund is a retirement 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.
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> The benefit is invested, and the beneficiary 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. When the beneficiary turns 18, they will become entitled to the balance of the capital that is in the beneficiary fund. The beneficiary can also request that the benefit remains in the beneficiary fund.

- Once this is established, beneficiaries who are of legal age and who receive a share of the death benefit can choose to receive their benefit either as a **cash lump sum** or as an **annuity** (or as a combination of the two).

Before making such decision of either a cash pay-out or an annuity, it is also important to note the **TAX IMPLICATIONS OF EACH SET OUT BELOW.** This is general information and beneficiaries should receive specific advice with regards to the actual amount.

CASH LUMP SUM

Cash lump sums are taxed according to the retirement lump sum tax table, as though they had been received by the deceased on the day before their passing. Note that if the member accessed any retirement savings prior to death, this would reduce the taxable amounts in the table below (i.e. more tax would be deducted than shown).

Taxable Amount	Rate of Tax
R0 to R500 000	0%
From R500 001 to R700 000	R0 plus 18% of taxable income exceeding R500 000
From R700 001 but not exceeding R1 050 000	R36 000 plus 27% of taxable income exceeding R700 000
Exceeding R1 050 001	R130 500 plus 36% of taxable income exceeding R1 050 000

ANNUITY INCOME

The annuity income will be taxed in the hands of the recipient per the prevailing income tax tables.

WHAT KIND OF ANNUITY CAN BE PURCHASED?

Members who choose the annuity option have a number of other choices to make. These include a Life Annuity (from an Insurer) or a Living Annuity (from an external provider). Though they sound the same, they are very different. The differences are briefly shown in the table below:

	Life Annuity – Insurer	Living annuity –Outside service provider
Vehicle	Insurance Policy	"Bank account"
Payable	As long as you live	Until living annuity balance is depleted
Pension amount	Set by insurer depending on type of pension increases and terms	You decide this on an annual basis (within certain limits)
Investment choice	None	You decide how the living annuity balance should be invested with the portfolios offered by the service provider
Decision making	At point of purchase for terms	Annual – amount of pension and investment
Inheritability	None (except where agreed)	Remaining living account balance
Ability to change later	Not permitted	Permitted – can purchase another living annuity or life annuity
Risks	Loss of capital on early death	Risk of outliving your capital

Though the Fund does not offer a Life Annuity, the Fund will obtain for you a commission free quotation from two providers for a with profits pension.

Of course, there are other Life Annuities and Living Annuities available to you. For further information please contact the Fund and request the "Options available to you when you retire" guide.

Should you have any queries, please contact the Principal Officer, Ms Rushnah Davids.