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Nominate or be in a (e)state

DISTRIBUTION OF TAX UNAPPROVED DEATH BENEFITS UNDER A GROUP INSURANCE POLICY

BACKGROUND

The Prudential Authority, through the Insurance Act 18 of 2017 ('the Act'), requires **tax unapproved death benefits** (including family funeral benefits) under a group insurance policy to be **paid only to a nominated beneficiary.**

WHO ARE DEFINED AS BENEFICARIES IN TERMS OF THE ACT?

"Beneficiary" means, in the case of a group insurance policy:

- a member of the association or fund, or an employee; or
- a person nominated by this member in respect of whom the insurer should meet the insurance obligations, which person is not the association, fund or employer.

WHAT ARE THE IMPLICATIONS?

This means that **tax <u>un</u>approved death benefits** (including family funeral benefits) <u>provided by an employer to its employees</u> under a group insurance policy **can only be distributed** to a beneficiary of a late employee **in terms of a nomination of beneficiary form** completed by that employee prior to their death. **If no such form exists**, the benefits become **payable to the late employee's estate**. In this case it will likely take longer to benefit those who need it most.

In the past, insurers may have paid these benefits to employers providing them with the discretion to distribute benefits to the relevant beneficiaries. Historically some employers advanced benefit amounts to beneficiaries in anticipation of being reimbursed by the insurer from the policy proceeds. There is **no longer any allowance in the Act for insurers to pay benefits to employers** for distribution to beneficiaries.

Note, however, that **the distribution of tax <u>a</u>pproved death benefits** <u>provided by a fund to its members</u> **is still governed by Section 37C of the Pension Funds Act.** Nomination of beneficiary forms completed by members provide a guide to a fund's trustees who are ultimately responsible for the distribution of these benefits to beneficiaries. Members are thus still encouraged to complete such forms to assist the trustees. However, these completed forms cannot be used for the distribution of tax unapproved death benefits under a group insurance policy.

Actions to be taken by **employers** and/or **employees**:

1.	***Employers** should communicate this to relevant employees as a matter of priority. As before, employers will need to keep the tax unapproved nomination of beneficiary forms on record for submission to the insurer in the event of a claim. It is recommended that employers send employees annual reminders to keep their forms updated.*
2.	***Employers** who historically adopted the practice of advancing tax unapproved death benefits to beneficiaries, should cease doing so with immediate effect to ensure they are not left out of pocket.*
3.	***Employees** must complete the insurer-specific nomination of beneficiary forms indicating to whom their tax unapproved lump sum death benefit and/or family funeral benefit should be paid in the event of their death. Most insurers will require separate forms to be completed for each benefit. Remember, if no nomination of beneficiary form is completed, the benefit(s) will be paid to the estate. In this case it will likely take longer to benefit those who need it most. Also, these nomination forms are separate from those completed in respect of any tax approved fund-related death benefit.*
4.	***Employees** must ensure they keep their nomination of beneficiary forms updated as their circumstances change, for example with the birth of a child, marriage or divorce etc.*

Your Robson Savage consultant will explain which benefits you have that are tax unapproved and will be glad to provide any further input you might require.

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