Navigating individual financial well-being

What matters in the end

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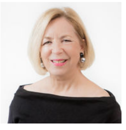

Anne Cabot-Alletzhauser

> “ A MAN’S DYING IS MORE THE SURVIVORS’ AFFAIR THAN HIS OWN ”
>
> *THOMAS MANN*

News pundits are particularly fond of the quote “Death is literally killing our people financially”[1]. In South Africa, that can happen in one of two ways. On the one hand, as Deborah Solomon, a Cape Town-based debt counsellor, highlighted in a recent interview: “Around 85% of people’s debt problems start with a death in the family…. It is not only the cost of the funeral but the expatriation of the body and the challenge of looking after the dependants when the breadwinner dies that is creating the financial burden[2].”

When asked to identify the financial product most widely owned by South Africans, Finmark Trust put funeral coverage on the top of the list for mid- to lower-income employees. To meet the high cost of funeral coverage (as much as R100 000 according to the FSB[3]) people often blend both formal structures, like funeral policies, and informal structures, like stokvels and burial societies, to meet the costs of a funeral. Finmark Trust approximates that 38% of South Africans hold a formal funeral policy, while 35% hold an informal funeral product. They further estimate that 35% of those who have funeral cover also belong to a burial society[4].

If we could identify one mental mindset or social norm in the broader South African culture that has taken root it’s that, without adequate funeral coverage, the family (survivors) will be unable to discharge their responsibilities or reaffirm their place within the community. Funerals play a vital part in the continual reweaving of a community’s social fabric.

Several developments have converged to make these traditions almost untenable. Where once these lavish events seemed fitting tributes to individuals who have made lifetime commitments to providing leadership and the ‘social glue’ to a community, the AIDS crisis has changed all that. Even with the introduction of ARVs, many more deaths are happening at much younger ages, but the scale of funerals has not necessarily been adjusted to recognise that the primary function of the funeral may well have quietly shifted. Funeral costs have not adapted to these shifts.

The problem is that funerals and their associated costs have become linked with status, irrespective of a person’s seniority in the community. Money buys the credibility that an individual may not have had the benefit of a full life to achieve. This recognition has led many South Africans to buy multiple funeral policies or burial society memberships to pay for the financial burden of a lavish funeral. Adjusting to this upward spiral has come at an untenable cost though: the financial viability of the survivor.

The loss of the family breadwinner in middle age opens up many new financial issues. Looking after orphaned children or elders without incomes now falls to the survivors.

> “ Why don’t we take that money and use it as a memorial by starting a bursary/scholarship fund for such students ”
>
> *FSB*

Financial imperatives such as funding the children's education, managing the debt payments on the family home or car, or funding for retirement, must take a backseat until the funeral has been paid for. The consequences cannot be ignored.

Is the answer really more funeral insurance? This is one area where families and individuals need our help as an industry in understanding the trade-offs. It's one thing for sellers of insurance policies to brow-beat individuals into allocating almost all their savings to burial societies or funeral policies by citing the rising cost of funerals. But the more important question would be "what are the trade-offs a family must consider in terms of the future for the survivors or, more importantly, the next generation?"

Financial advisers could play a key role here. But perhaps the starting point has to be with the communities themselves.

In 2012, the FSB turned to the South African Council of Churches (SACC) for help in this regard. What was needed was a two-pronged attack. On the one hand, an appeal went out to get church leaders to gently nudge their flocks towards a bit more circumspection. Did it make sense that South Africans were saving more to cover their death than they did to cover their life?

"Why do we continue to put costly caskets underground when we have kids dropping out of school because they can't afford to study?" SACC general secretary, Reverend Mautji Pataki, said.

"Why don't we take that money and use it as a memorial by starting a bursary/scholarship fund for such students?" argued the FSB5.

But the other area that needed addressing was the unscrupulous overpricing by funeral parlours and hard-selling insurance companies. Legislation needed to play a more aggressive role – at a national level not just at a provincial level. Again, the churches and the FSB need to use their powers of moral persuasion and consumer education to place pressure where it is needed.

What should be our real focus?

Where the focus of protection needs to shift is to what happens to 'the survivors'.

This is when the South African cultural divide converges. No matter what our socio-economic backgrounds may be, a critical source of value destruction in families and communities comes from the fact of 'not planning'. Not providing our 'survivors' with the means to navigate a financial world in our absence.

Death is out of our control – the when, where and how. But one thing we can control, but often overlook, is the condition we leave our family in when we die. Not many of us even dare to think about that event before we really need to, which is when we are faced with a terminal disease, life-changing accident or some other event.

In the previous chapters we spent some time talking through the issues that an individual has to consider when deciding to take out insurance, in particular in this case, life cover. But do we understand what the implications are of failing to plan appropriately for your death?

How do we protect our families when we die?

Case study/lesson

What if I just don't bother with a will – what happens?

How often are we told "You need to make a will!" And how often do we superstitiously tell ourselves that somehow the act of doing so might well become the catalyst for the event. Perhaps a better way to ask the question is "What happens if I just don't bother?"

Dying without a will means that you die 'intestate'. The Master of the High Court will become the key decision-maker, 'the executor' of your estate and will distribute your belongings according to the law, the *Administration of Estates Act*, which may not align to your wishes. This process can take an extremely long time to complete. The primary criterion the law uses is that assets follow the bloodlines – favouring wife and children first. One of the unintended consequences of this is that the family may not have access to the deceased's money to survive while this process is underway. If the estate at death is less than R125 000 a representative from the Master of the High Court will automatically administer the estate.

A will does more than say how your belongings should be distributed. An effective will can unlock any number of obstacles that a family faces when their breadwinner dies. At its most basic, wills can indicate who should get what. But the important function of a will is to ensure that there is a comprehensive tally of every asset an individual may possess and where it can be found. Wills should capture details of assets and debt obligations, pension fund assets, life cover policies and how the individual wishes their estate to be distributed after paying off debt. The act of creating a will with a financial planner provides an important opportunity to consider how an individual could structure their estate in the most taxefficient manner possible.

Who needs a will?

Having a will is not just for people who are considered wealthy in the traditional sense. In the appendix to the will you can specify anything from artworks, jewellery and even livestock – pretty much anything of reasonable value. It's often the case that the most contentious assets in a will are not the most valuable, but the ones that have the greatest sentiment or emotion attached to them. Putting these items in the appendix can help to avoid any discord among beneficiaries after the person's death.

One of the most important functions of a will is that it allows a person to state who will be guardians for their minor children.

But having a will may not be good enough. You have to update your will at least once a year and after any major change in assets, liabilities or family structure.

WHAT ELSE HAVEN'T WE THOUGHT ABOUT THAT CAN PROVIDE SOME PROTECTION AT DEATH?

Employer benefits

For most employed people, there will be policies that an individual may not previously have considered. This could include death benefits (typically in a lump-sum form), disability benefits (either as a lump-sum or an income stream), and funeral cover. Accumulated retirement benefits may also be available to the dependants.

These benefits could be offered on an approved or an unapproved basis. If on an approved basis, then the benefits will be taxed on pay-out. This may rely on the individual having nominated beneficiaries for their policies. If these benefits are through the retirement fund, any payout will go through the trustees. Even if there is a nomination form on file, distribution of benefits is at the discretion of trustees, based on determinations of financial and legal dependencies. They could ignore the content of the nomination form and qualify why they have done so in the resolution to effect payment.

Unconventional benefits

Sometimes we have benefits available from unconventional places. One example of this is where the individual has a credit card that offers a small funeral benefit or death benefit. The amount is normally capped but is intended to be used towards repaying the balance on the account. Although a benefit of R5 000 may not make a difference for a higher-income earner, it can have a huge impact on the family of a low-income earner who can use this money for many purposes.

State-provided benefits

If the individual cannot afford any benefits, does not have any employer-provided benefits or simply chooses not to take out cover then it doesn't mean that they are left without cover. Depending on the circumstances in which they die, the following State-provided benefits may come to their rescue:

- Workman's compensation
  If the client passes away in a work related activity the dependants can claim certain benefits. The size and structure of the benefit that the family is entitled to depend on the composition of the family (spouse and child benefits). The person who incurs funeral expenses will also be entitled to claim within certain limits.

- UIF death benefit
  If the person was a contributing member to the Unemployment Insurance Fund (UIF), their dependants may claim death benefits from the fund. The size of the benefit will be affected by the length of time they have been contributing to the fund. Their spouse and any minor children must apply for these benefits within six months after their death. The death benefit they receive will be the amount that they could have claimed if the deceased had become unemployed.

- Road Accident Fund (RAF)
  If the breadwinner of the family is killed in a motor vehicle accident, their dependants may claim from the RAF for the loss of support. The RAF's liability to compensate the loss is limited to a prescribed cap. The RAF will also assist in the compensation for your funeral expenses if you are killed in a motor vehicle accident. The RAF's liability to compensate the funeral costs is limited to the necessary actual costs to cremate or bury you.

The State has proposed the introduction of a social security scheme, and if successful, such a scheme will offer a death benefit (in addition to retirement benefits) to citizens that contribute to the scheme[6].

Taking care of the admin around your death

Some of the softer issues that the family of the deceased need to consider are: what life cover policies exist so that they can submit claims; details of any medical aid policies in place; debit orders that they may have to switch; details of bank accounts; and so on. If families are not prepared, frozen bank accounts can make life very difficult for them.

In addition, are there any outstanding claims on insurance policies? If a claim on a dread disease, disability policy or some other policy has not been paid out before the individual's death, their family needs to be informed.

Accessing such key pieces of information as passwords for computers or special accounts, the location of keys or strongboxes, important communications for loved ones, and who to contact for what, like the cancellation of services that may no longer be needed, is vital.

For many people, the benefit paid out on the death of a family member will be the most money they have ever had access to at a single point. For this money to be used responsibly, they have to have proper planning in place for the use of the funds. An adviser or financial planner may have to sit with the family and discuss both their current income needs and their future aspirations. The money can then be invested in such a way that it meets their requirements.

The final checklist

The final step in protecting your financial well-being is to make sure you have all your important financial documents together, and that your family knows where they are:

- Marriage certificate, divorce or maintenance contracts – If married with an antenuptial contract, a copy of this as well
- Certified copies of IDs, birth certificates, passports, driver's licences (also try to keep the actual documents where your family can find them)
- Updated copies of insurance policies and schedules
- Car registration documents

- Latest copy of your will
- Details of bank accounts and banker
- Latest copies of policies for investment products and details of contact person
- Details of all consumer accounts (retail store accounts, TV subscriptions)
- Details of business entities
- Title deeds for properties
- Rates and taxes accounts or details of the body corporate or managing agents
- Details of your retirement fund
- Name, membership number and address of your medical aid
- Income tax reference number and office of registration

Other useful information:
- Post box details
- Providers of household services (alarm system, electric fencing)
- Details of domestic help and gardeners

ACCESS DENIED

Banks cut off your access the moment they know you are dead. Keep your PINs, account log-in details and online passwords somewhere safe and secure where your family can find them if they ever need to.

Remember: Your family will need to renew insurance and medical aid policies that were under your name when you're gone.

Concluding thoughts

The fact of the matter is that we fail spectacularly at having these hard conversations about death and preparing for it – in spite of the fact that this is something we will all face, without exception. The key to getting this right will be in the quality of the consulting framework. These are not discussions that should be held in the heat of a sales pitch, nor should they rightly be linked to any form of compensation by commission. If anything, these conversations more rightly belong to the realm of financial planner, financial coach or financial therapist – all professionals who should be adept at helping individuals understand the trade-off issues, how incredibly sensitive these discussions can become and, most importantly, help individuals zero in on what matters most to them – given their broader financial reality.

References

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Article tags

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