Press release from Fairheads Benefit Services
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Beneficiary fund industry lobbies for majority age exemption

A key player in the beneficiary fund industry has called on government to reverse the age of majority from 18 back to 21 as an exemption for this fast-growing financial services sector. The age of majority was changed to 18 by the Children's Act of 2007.

Talking at a conference of the Pensions Lawyers Association in Cape Town today, Giselle Gould, business development director of Fairheads Benefit Services, said: "It is not uncommon for beneficiary fund service providers to pay out R100 000 or more on the termination of an account when the fund member turns 18. Yet the reality of social and educational circumstances means that the average 18-year old in South Africa is not financially mature enough to invest or use large sums of money responsibly."

Beneficiary funds and their umbrella trust predecessor vehicle manage approximately R15 billion of assets on behalf of orphans or single-parent children. They receive lump sum death benefit payouts from retirement funds in terms of section 37C of the Pension Funds Act. Accounts are set up in an umbrella beneficiary fund which pays out an income to beneficiaries (usually their guardians), as well as capital amounts for expenses such as school fees. Once the beneficiary turns 18, they are entitled to the remaining funds.

Ms Gould said: "It is estimated that only half the children who start school actually get to matric. Of that half, only 70% pass. So the number of 18-year olds with a good education and the ability to make sound financial or business decisions is very low."

"There are also social realities. According to last week's National Budget, nearly 16 million people are now on social grants. And a recent report by the SA Institute of Race Relations showed that children on the child support grant account for 70% of all people on social welfare and the number of social grants for children has risen 13-fold since 2011. You can imagine the family pressures on 18-year-olds who receive large payouts to use the funds for the family, instead of investing them for tertiary education or seed capital for a small business, for example."

Fairheads met over 4 000 guardians and caregivers during an educational national roadshow in 2011. Many guardians said that many 18-year-olds drop out of school when they get a lump sum of money or stop working. Some squander the money and kill their chances of a better life in the future.

Fairheads makes a point of counseling beneficiaries and members before their funds terminate, in order to encourage them to use the funds wisely. But financial literacy levels are low and Gould says Fairheads has therefore started a formal lobbying process for an exemption to the age of majority for trusts and beneficiary funds to run until 21.

“This is undoubtedly a controversial topic but we believe that those extra three years could give thousands of young people time to think carefully and be more mature about how to use lump sum payouts,” says Gould.

Fairheads has started to engage the authorities and other stakeholders on the issue.

See case study below

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NOTES TO EDITORS

Fairheads Benefit Services, an authorised financial services provider, is Southern Africa's leading independent service provider for beneficiary funds and umbrella trusts for retirement funds. It is executive and staff controlled.

Fairheads offers a combination of administration, trusteeship and consulting services. It services over 5 600 retirement funds and 36 of out the top 100 funds. It has R6.2 billion of assets under administration.

Imbasa Yegolide award

Fairheads was awarded the best Trust and Beneficiary Administrator of the Year at the 2010 and 2011 Imbasa Yegolide Awards for professional excellence in the retirement fund industry.

case study
Note: this case study is based on the umbrella trust product as investment history for beneficiary funds dates back only to 2009. The investment strategy is the same for umbrella trusts as for beneficiary funds.

Case study 1
In December 2001 XYZ Group Pension Fund asked Fairheads to set up trusts for two minor children whose father, a member of the fund, had passed away. The total death benefit amounted to R364,432.22. The trustees of the pension fund decided to allocate 58.78% to the widow to sustain herself and her two minor daughters, and to allocate 20.61% to the children respectively (aged 9 and 11), that is an amount of R75,109.48 each. The children's shares would be placed in an umbrella trust to be used for their educational expenses. The trusts were to be capitalised, meaning that no monthly income would be paid and all interest would be reinvested.
Ten years later, the oldest child has finished studying. The accumulated interest over this period was jn excess of R72,000.00., Over the years the Fairfund Umbrella Trust administered by Fairheads has assisted with her secondary and tertiary fees as well as covering her matric dance expenses, driving lessons and license, a computer and related equipment (adding up to R70,428.50). The beneficiary studied photography once she finished matric and the umbrella trust also assisted her in purchasing camera equipment and providing the means to set up her own photography company.
The Fairfund trustees have enjoyed a good relationship with the beneficiary and her mother over the years, receiving photographs and regular updates on her educational progress. The beneficiary has reached majority age and has elected to take the remaining funds out of trust. The remaining balance paid to her was R78 719.83.

Beneficiary funds

Beneficiary funds are aligned with the Pension Funds Act and are designed to receive lump-sum death benefit payments in terms of section 37c of that act. Upon the death of a retirement fund member, the trustees identify the dependants and use their discretion whether to pay the money into a beneficiary fund, administer it within the retirement fund or pay it directly to the guardian. They are guided in this complex decision by service providers such as Fairheads which has developed tools such as a guardian assessment process to assess whether a guardian is financially literate and capable of investing and administering minors' assets for their benefit.

Once in a beneficiary fund, the trusteeship of the assets passes to the board of the beneficiary fund. Beneficiary funds are structured similarly to retirement funds. They offer greater protection for minors as they are regulated by the Pension Funds Act and all stakeholders have recourse to the Pension Funds Adjudicator; there are strict corporate governance requirements; and investments are prudentially managed in line with regulation 28.

Investment strategy

In line with best practice, Fairheads outsources the investment of beneficiary funds to a number of leading investment houses. The investment strategy for a beneficiary fund is distinctly different from that of a retirement fund. Individual members of a beneficiary fund have very different needs and this requires an asset allocation matrix for each category of members. Essentially this is a type of life-stage investment model, but determined by the trustees in consultation with asset consultants. For example, a one-year old member will have very different needs from a 16-year old member in high school and therefore would fit into a separate asset allocation matrix (similar to a life-stage in a retirement fund.)