



TALKING POINTS

# DEATH AND DISABILITY BENEFITS THE DIFFERENCES BETWEEN APPROVED AND UNAPPROVED ARRANGEMENTS

|   | APPROVED<br>DEATH AND DISABILITY COVER   | UNAPPROVED<br>DEATH AND DISABILITY COVER   |
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| <b>WHAT IS "APPROVED" OR "UNAPPROVED" RISK COVER?</b> | <p>Group Life Assurance and Lump Sum Disability can be either approved or unapproved. However, Income Protection can only be unapproved cover.</p> <p>"Approved Cover" refers to the death and disability cover that is provided by a tax approved retirement fund. This means the fund is "Approved" by SARS. This type of arrangement is also known as a "fund owned" policy.</p>  | <p>A death or disability policy is taken out by an employer directly with the insurer. There is no retirement fund relationship so the benefit is not paid via the retirement fund.</p> <p>This arrangement does not need to be approved by SARS and is referred to as "Unapproved". Also called a "Company owned policy".</p>                       |
| <b>POLICY OWNERSHIP</b>                               | The retirement fund owns the policy.   | The employer owns the policy.  |
| <b>PREMIUMS</b>                                       | <p>The employer and/or the employees pay their contributions to the retirement fund. The fund then pays part of the contributions across to the insurer as premiums under the risk policy.</p> <p>The Retirement Fund does not pay tax therefore it cannot claim any deductions for the premiums that it pays for approved risk policies.</p> <p>The employer and employee contributions are tax deductible subject to certain limits.</p> | <p>In terms of the policy, all premiums are paid by or via the employer.</p> <p>For the death, lump sum disability and disability income benefits:</p> <p>The employer paid premium is a fringe benefit taxed in the employees' hands (i.e. this will be tax deductible for the employer), but employees receive no corresponding tax deduction.</p> |



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|                                    | APPROVED<br>DEATH AND DISABILITY COVER   | UNAPPROVED<br>DEATH AND DISABILITY COVER   |
|------------------------------------|--|--|
| <b>BENEFITS</b>                    | <p><b>Death:</b><br/>The insurer pays the insured amount to the retirement fund. The fund adds the insured amount to the deceased member's retirement savings to pay a death benefit. This benefit is allocated on an equitable/fair basis to the financial dependants and/or nominees of the deceased member following an investigation; and is decided by the trustees, in terms of section 37C of the Pension Funds Act.</p> <p><b>Disability:</b><br/>The insurer pays the insured lump sum amount to the retirement fund, which adds the amount to the member's retirement savings to pay the member's benefit. From 1 March 2021, it will also require annuitisation above certain limits.</p>   | <p><b>Death:</b><br/>The member nominates the beneficiaries to receive the benefit. Where there are no beneficiaries, the benefit is paid to the deceased employee's estate. For funeral and family cover, if there is no beneficiary, we do make payment to a default beneficiary which would be an immediate family member.</p> <p><b>Disability:</b><br/>The employer chooses whether to have lump sum cash or disability income cover for its employees. Irrespective of the type of cover, generally the insurer pays the disabled employee directly. However, there are cases where we pay Income Protection benefits via the employer to pay the employees.</p> |
| <b>HOW ARE THE BENEFITS TAXED?</b> | <p><b>Death:</b><br/>For the pension and provident funds, the value of the insured amount plus the member's retirement savings is used to provide a death benefit. Where the pension/provident fund pay a beneficiary a cash amount, the amount is taxed in the name of the deceased member on the basis of a sliding scale. Over the member's lifetime, only the first R500 000 of the taxable death benefit will be tax free. Any non-deductible retirement fund contributions (e.g. employee contributions to a Provident Fund pre-1 March 2016) will reduce the amount of the taxable benefit.</p> <p><b>Disability:</b><br/>For the pension and provident funds, the value of the insured amount plus the member's retirement savings is used to provide a retirement benefit. The disabled member may take up to a maximum of one-third in cash. The balance of the benefit is used to purchase an annuity (monthly pension), with the income taxed at marginal rates in the hands of the disabled member. Concerning tax on the cash amount, only the first R500 000 of the taxable benefit is tax free over the member's lifetime. Any non-deductible retirement fund contributions (e.g. employee contributions to a Provident Fund pre-1 March 2016) will have the effect of reducing the taxable benefit.</p> | <p><b>Death and Disability cash/lump sum amounts:</b><br/>The lump sum amounts are tax free.</p> <p><b>Disability income:</b><br/>The monthly annuity received by the disabled employee is tax free.</p> <p>If the benefits are paid to the member's estate, then estate duty would be applicable.</p>   |

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