

Why do you need mortality benefits?

Last Modified on 11/05/2023 9:32 am CAT

There are many different reasons why you would want to have mortality benefits (aka life cover) in place. Some examples are shared below:

To settle debt

A life insurance policy can potentially cover most or all of a client's debt, e.g., on a home loan when you buy a property. The life insurance proceeds pay out on the death of the insured life and can be used to settle the debt with the bank.

Replacing income

It's important to remember that when a person passes away, their family or dependants are left with one less source of income. Think about what would happen to your dependants on your passing away:

- How much income will one's family need each month?
- How many years does that income need to last for?

Paying estate duty

Estate duty is a death tax levied against the estates of deceased persons. A 20% tax on the value of the estate over R3 500 000 is charged. (The Estate Duty rate is 25% on the dutiable amount of estates of more than R30 million). If the estate does not have the money available to pay the estate duty, assets in the estate will need to be sold off to create liquidity.

Paying executor's fees

When a person passes away, an executor needs to be appointed to wind up their estate, and there is a fee attached to this service. Why should one need to make a life insurance provision for executor's fees? The executor pays themselves first, and if their fees haven't been provided for, assets might need to be sold off to create liquidity in the estate.

Paying Capital Gains Tax (CGT)

On passing away, a person is deemed to have disposed of their assets at market value for the purposes of CGT. What you need to know about the CGT payable on death:

- CGT is levied on the growth of the value of the assets in the hands of the deceased.
- Assets left to a spouse do not attract CGT.
- The taxable gain will be included as taxable income.
- 40% is the applicable CGT inclusion rate for individuals.

Funding education

Providing funds that may be used to pay for the education of children.

Funding guardianship

A guardian might have a responsibility to take care of a minor child and provide financial support. The same applies to a

person with diminished mental capacity. A crucial part of the planning to ensure that there are sufficient funds for a guardian or in a trust to look after dependants.

Paying for lifestyle adjustments on the death of a spouse

The passing away of a spouse might bring about additional expenses, such as childcare, frail care, hiring a private nurse, domestic servant, or a driver. Taking out life cover on the life of a spouse who provides such services will ensure these costs are provided for.

Business assurance

Life insurance is often used to protect a business or the owners of a business against risk, including:

- Funding a buy-and-sell agreement to ensure business continuity.
- Key person insurance to protect the profitability of the business.
- Contingent liability insurance to protect the estate of the business owner (where the owner provided surety for a loan).
- Credit loan account protection.