

# LOW COST, PENALTY FREE RETIREMENT ANNUITY

The retirement annuity industry is receiving a serious shake up with the introduction of a number of new age low cost index based flexible and penalty free retirement annuities.

Itransact was first to market when it launched its low cost Exchange Traded Fund (ETF) Retirement Annuity Portfolio range in 2013 consisting of five risk adjusted regulation 28 retirement annuity portfolios which are aimed at addressing the historically high costs of retirement products.

The ETF portfolios cover the main asset classes such as cash, bonds, property, domestic and foreign equities, each asset class being represented by underlying ETFs

Itransact ETF Retirement Model Portfolios	3 Years	2 Years	1 Year
Cautious	7.55	8.66	8.19
Moderate	9.83	9.96	9.16
Growth	11.83	10.38	10.08

Annualised returns, after portfolio management fees and weighted total expense ratios of the underlying ETFs. Conservative and Max portfolios not shown. Source Itransact 2016

The Itransact ETF RAs have no confiscatory penalties that kick in when you have to stop paying premiums or wish to transfer to another retirement annuity. These penalties are often realised by the product provider taking it from your investment growth, thereby undermining your expected investment returns.

One of the most notable advantages of low cost ETFs is the fact that they are known to regularly outperform actively managed funds. According to Profile Data (June 2016) only 26 % of active managers who invest

in general equities managed to beat the market (the ALSI) over a 5 year period. This is mainly due to the higher costs of active managers.

Percentage of Actively Managed General Equity Funds beating Indices	10 Years	7 Years	5 Years	3 Year	1 Years
FTSE/JSE Top 40 TR	37%	27%	38%	27%	43%
All Share Index TR	26%	18%	30%	26%	31%

Source: Profile Data June 2006.

Costs are the main culprit for destroying potential retirement returns. Many investors do not realise the impact that costs have on their returns.

Consider the following table.

GENERAL EQUITY SECTOR	
Average Total Expense Ratio (TER)	1.47%
Average 1 Year Return	3.06%
Total Expense Ratio as a % of Return	48%
GENERAL EQUITY ETFs	
Average Total Expense Ratio (TER)	0.35%
Average 1 Year Return	3.96%
Total Expense Ratio as a % of Return	8.8%

Source: Profile Data June 2016 Returns are after costs.



Lance Solms  
Head: Itransact

The Itransact RA is perfectly suited for investors who are looking for product simplicity and transparency and who are no longer interested in expensive investment managers who fail to beat their benchmarks. ●

## Itransact retirement annuity – key benefits for your clients



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