

New metric lifts lid on RA costs

Sample of nine plans reveals wide range of annual charges

By LAURA DU PREEZ

● A new cost measure on a sample of retirement annuities shows a wide disparity of charges – some that are above 4% a year over a longer term and others that are highly punitive over shorter terms.

A new standardised method of disclosure adopted by investment companies that are members of the Association for Savings and Investment South Africa is lifting the lid on many charges. These include the effect on your savings of penalties for terminating your investment before the term is up, commission paid to an adviser instead of fees paid when you invest, loyalty bonuses, investment guarantees and other fixed- and costs.

In October the association introduced the “effective annual cost” measure, and all members committed themselves to disclosing this cost measure on quotes provided to new investors. The association revised its ini-

tial standard in June and many product providers have since made their costs more competitive. However, a sample of quotes drawn this week shows a wide disparity in the effective annual costs charged by nine companies on a retirement annuity into which you put R1 000 a month. This is particularly true of the first year, when costs vary from 1.9% to 30.4% of the investment.

These costs diminish the longer you invest, with the five-year annual costs going down to between 1.7% and 9.2%. Over longer terms, reflected as “the term to retirement”, the cost varies between 1.4% and 6.2%.

The new measure includes not only the asset management fee but also transaction costs, advice fees or commissions, any administration fees and penalties for early termination and the cost of loyalty bonuses or guaranteed returns.

Products surveyed included several types of investment and commission structures.

In the sample quotes for the nine retirement annuities, Old Mutual Wealth’s retirement annuity invested in its multi-asset fund, the Old Mutual Multi-Managers Balanced Fund of Funds, had the highest annual cost.

The investment management fee is 1.6% and the advice fee 0.5% over all periods but “administration” costs are as high as 22.5% in

Fast Facts

Bonuses and penalties

Life assurers introduced loyalty bonuses on new retirement annuities a few years ago as an alternative to the penalties they still impose on older ones if you stop or reduce your contributions. The penalties, sometimes exceeding 30% of your investment, recover the cost of upfront commissions paid to advisers based on the term to which you commit.

The penalties that can be imposed were limited in 2006 and the financial services regulator, the Financial Services Board, has proposed a ban on upfront commission on investment products to stop penalties being imposed on your savings. The ban has yet to be implemented. Investment products on which penalties can be imposed will show high effective annual costs for periods less than the investment term.

Cost comparison of RAs

	1 year	3 year	5 year	Term to retirement
Itransact	1.9%	1.8%	1.7%	1.4%
Satrix	2.0%	2.0%	2.0%	2.0%
Allan Gray	2.3%	2.3%	2.3%	2.3%
PSG	2.5%	2.5%	2.5%	2.5%
Momentum	2.6%	2.6%	2.6%	2.5%
Sanlam	4.8%	3.0%	2.5%	2.1%
Old Mutual Max	7.3%	4.9%	3.4%	2.9%
Discovery	8.5%	5.3%	4.7%	4.0%
Old Mutual Wealth	30.4%	13.1%	9.2%	6.2%

R1000 a month recurring investment over the stated period with no escalation in contributions. Underlying investment in the provider’s Balanced Fund. No initial advice fee. Ongoing advice fee of 0.5%.

Graphic: Ruby-Gay Martin Source: Actual quotes from providers

the first year, reduced to 3.4% after 10 years.

Ferdinand Booysen, head of strategic relationships at Old Mutual Wealth, said the product was designed for lump-sum investments or recurring contributions of more than R2 500 a month. A monthly contribution of less than R2 500 attracts a R120-a-month administration fee, he said.

Old Mutual’s Max RA is more suitable for a

R1 000-a-month contribution, Booysen said.

The provider with the second-highest effective annual cost is Discovery – its charges range from 8.5% in the first year to 4% over the term to retirement. Its investment management fee for the Discovery Balanced Fund is 2.1% across all periods and its administration fee ranges from 5.8% in the first year to 1.3% over the term to retirement.

On Sanlam’s Echo Retirement Plan the advice fee is 1% over periods of up to five years because the adviser is paid commission. The fee diminishes to 0.3% for longer periods.

Costs included under “other charges” amount to 3% in the first year, reduced to 1.2% over five years and 1% over longer terms. On this retirement plan, these costs include the marketing and administration costs and the cost of providing a loyalty bonus.

The lowest costs in the sample were on the retirement annuity from index-tracking investment provider iTransact. The asset management fee is just 0.4% and its administration fee is 0.7% over all periods.

PSG also boasts low costs because the product chosen for the sample quote has the PSG Balanced Fund as its underlying investment and PSG, like many other companies, waives the platform-administration fee if you invest in funds the group manages.

Do your homework for varsity savings

