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Pension Funds Adjudicator

Press Office Feature : It pays to check the fees deducted from your RA policy

Company: Pension Funds Adjudicator
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Claimed she 'would have been better off investing the money in the bank at bank rates'

It pays to check the fees deducted for your retirement annuity policy. Administrators of funds sometimes do make mistakes.

A Johannesburg woman complained to the Office of the Pension Funds Adjudicator that the fees charged on her lump sum contribution was the same amount as a monthly contribution payment and the fees far exceeded the monthly return on investment.

Mrs MJ Le Roux brought the complaint against Lifestyle Retirement Annuity Fund (first respondent) and Liberty Group Ltd (second respondent).

The complainant said a retirement annuity policy was issued to her and commenced on 30 September 2010 with a maturity date of 30 September 2026. The initial monthly contribution was R200 which increased each year by 10%.

On 15 October 2010, an ad hoc single contribution of R11 054.29 was paid and on 3 November 2010 a further ad hoc single contribution payment of R200 000.00 was made.

The complainant submitted that she was unhappy with the fees charged on her lumpsum contribution. She said she had not been informed that the lump sum would attract the same fee as a monthly contribution payment. She added the fees far exceeded the monthly return on investment.

The second respondent said the following fees, as stated in the membership certificate, should be deducted from the Asset Value of each portfolio every month: a management fee of 0.250%; an ongoing guarantee fee of 0.125%; and an ongoing commission recovery fee on regular contribution asset value of 0.125% pm.

It submitted that the first two fees were correctly being deducted from the full asset value. The ongoing commission recovery feeshown on the transaction statement as an advisory fee should only be applied to the regular contribution asset value and not to the single contribution asset value.

The ongoing commission recovery fee should have only been applied to the regular contribution asset value instead of the full asset value, which resulted in the asset value being understated by R15 660.76.

The second respondent submitted that this amount had been credited to the contract and the fee had been removed from the single contribution asset value of the contract.

The second respondent said the management fee was to cover administration, investment management and distributed related costs and its profit margin. It stated that if the asset value increased because of the single contribution, it was correct that the management fee would also increase.

It explained that the ongoing guarantee fee applied to the portion of the asset value that was in a guaranteed portfolio. It stated that the single contribution of R200 000 would in fact never be eroded by charges as long as it remained in a guaranteed portfolio.

As the asset value increased with the addition of a single contribution, the monthly fee would increase to cover the costs of providing the investment performance guarantee.

The ongoing commission recovery fee was a fee to recover the upfront commission it paid to the advisor. The commission was not deducted from the recurring contributions but was recovered by the deduction of this fee over the term of the contract.

On a single contribution, commission was deducted upfront if applicable, and there was no ongoing commission recovery fee applied to this portion of the asset value.

The second respondent submitted that it had incorrectly been applying this fee to the full asset value and that the error had since been corrected on 8 May 2014 with the asset value being increased by R15 660.76 from R302 736.51 to R318 397.27. This placed the complainant in the position she would have been in had the charges never been deducted.

It stated the complainant had paid in R221 127.89 into her contract and the current asset value after adjustment and correction was R302 523.18. It stated that there had been no decline in capital and that the return on investment currently exceeded the fee deductions.

However, the complainant requested the first respondent to provide her with a full investment statement showing the investment return that the assets should have earned from the inception date, had the additional advisory costs not been taken off the assets.

She stated that the average rate of return on the investment since inception had been 9.33% per annum. She said if you stripped off the fees equating five percent of the investment, and took into account current inflation (CPI) of almost six percent, then there was no real return on investment and she would be better off investing the money in the bank at bank rates.

She said she could not see how the additional fees on the capital portion only of R1 200 per month (R14 400 per annum) were justified.

Her estimates indicated that the monthly investment return on her retirement annuity equated to only half of the fees and the balance was taken on a monthly basis from the capital she paid.

She asked to be provided with the total asset value and the termination costs (if any) to transfer to another service provider.

In her determination, the Pension Funds Adjudicator Muvhango Lukhaimane said a fund, its legal status, and the rights and obligations of its members, were governed by the rules of the fund, relevant legislation and the common law.

Ms Lukhaimane agreed with the second respondent’s submission that the ongoing commission recovery fee, shown on the transaction statement as an advisory fee, should have only been applied to the regular contribution asset value instead of to the full asset value, which resulted in the asset value being understated by R15 660.76. This amount had been credited to the contract and the fee had been removed from the single contribution asset value of the contract.

In order to determine whether the complainant suffered loss as a result of the deduction of fees from her retirement annuity policy, Ms Lukhaimane engaged the services of an independent actuary to assess whether the fees charged on the complainant's single premium were reasonable.

The actuary submitted that the complainant earned a net real positive return on her annuity policy of 4.12% per annum. He mentioned that it seemed as if the complainant had mistaken the declining unit balance for declining fund value.

The actuary said that since no regular contributions were received on the single premium portion of this portfolio, which had by far the largest value, the unit balance would decline as a result of the monthly fees.

The fees charged on the complainant's annuity were reasonable and in line with the policy documentation and the investment returns earned on the annuity were not unreasonable.

Ms Lukhaimane turned down the complainant's request regarding the refund of the fees levied against her funds.

However, the first respondent was ordered to provide the complainant with the total asset value and the quotation on termination charges for transferring her retirement annuity to another service provider.

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