Personal Finance

PPS and Sanlam at odds over RAs

October 27 2013 at 12:25pm
By Bruce Cameron
http://www.iol.co.za/business/personal-finance

Illustration: Colin Daniel

Related Stories

- Life industry’s lip service to savings

A bitter turf war between Sanlam and the Professional Provident Society (PPS) for top-end earners, such as doctors, engineers and other graduate professionals, has now landed on the doorstep of the Financial Services Board (FSB).

The potential victims of the war are the 100 000-plus professionals who are members of the PPS Retirement Annuity (RA) Fund with underlying investments, totalling about R24 billion, in traditional high-cost, inflexible Sanlam life assurance policies.

Jonathan Dixon, deputy FSB executive in charge of insurance, confirmed that he will be meeting separately with Sanlam and PPS next week to get an understanding of what is happening.

The FSB intervention follows a determination and media statement issued this week by the Pension Funds Adjudicator, Muvhango Lukhaimane (see “RA member forfeits 30% of her savings”, below).

Lukhaimane took the unusual step of issuing a media release, in tandem with her determination, calling on the FSB to investigate possible legislative changes to allow RA fund members to switch between RA funds at a reasonable cost.

In the determination she rejected a complaint made by a PPS member, Ms M, about a R45 000 penalty levied by Sanlam when she switched her underlying investment to a new-generation PPS product.

Behind the complaint is a 50-year association between PPS and Sanlam, which came apart in September last year when PPS announced that the PPS RA Fund was closing the traditional Sanlam life assurance investment option to new business.

PPS, which is a mutual owned by its members, was established more than 50 years ago by a group of dentists as an assurance scheme to ensure that they would receive an income if they were incapacitated and unable to earn a living.

Over the years, PPS expanded its membership to any professional who has the minimum of a four-year tertiary education. Products were expanded to include things such as the RA fund.

For many years, PPS members were offered only the traditional Sanlam life assurance investment product as the underlying investment for the PPS RA Fund, but in 2000 PPS introduced a unit trust option, the PPS Investments RA, in conjunction with Coronation Fund Managers.

The new option followed dissatisfaction among members about the traditional Sanlam option, which came with little investment choice, and penalties if contributions were not maintained.

The PPS Investments RA is a more versatile product, which allows members to increase, decrease or stop their contributions without incurring penalties.

Almost simultaneously in 2000, Sanlam introduced its new-generation Stratus life assurance investment product as an underlying investment choice to PPS RA fund members. The Stratus product offered more investment flexibility but retained the penalties for non-payment of contributions.

Last month, Sanlam launched a new Echo product, which does away with penalties, but offers loyalty bonuses paid on maturity of the investment. Higher bonuses are offered to investors with a four-year or higher tertiary education.

In its retirement reform papers, National Treasury has criticised all “loyalty bonus” structures as simply another form of penalty.

The current problem lies with the penalties existing PPS members invested in the Sanlam options face if they switch to the PPS/Coronation option. These penalties may form a substantial portion of their accumulated savings.

However, if the PPS members switch to another Sanlam RA product, no penalties are applied.

It is the inconsistent application of penalties which forms the basis of PPS’s support of Ms M’s complaint to Lukhaimane (see “PPS welcomes intervention”, right).

Hennie de Villiers, chief executive of Sanlam Individual Life and Segment Solutions, says that since Sanlam Life is the underwriter of both the underwritten section of the PPS (Sanlam) RA option and its Central Retirement Annuity Fund, and the RA policies sold to members of both funds are basically the same, it is possible to transfer the RA policy (instead of a monetary amount) from the one fund to the other.

The policy owned by the fund is not terminated, but simply transferred to the new fund. The policy remains unchanged, therefore no early-termination charges are payable, De Villiers says.

Dixon says that the reason for next week's meetings with Sanlam and PPS is so that the FSB can understand "the exact nature of the business conduct, with a focus on whether members have free and informed choice in these transfers, and whether the barriers to transfer are reasonable".

When PPS closed down the traditional Sanlam life assurance investment option to new business, the trustees of the RA fund told its members that the PPS/Coronation option was a better choice than the new-generation Stratus product.

Sanlam rejected the statement, saying its option is not as bad as the PPS board of trustees claims it to be.

Personal Finance conducted an analysis of the two products at the time, but found it difficult to come to a conclusion because there were too many variables – such as investment performance and the addition of profit share to PPS members – which made it impossible to predict future outcomes.

However, the penalties could sway a decision, particularly as they can account for 30 percent of accumulated value. Penalties on life assurance investments entered into since January 2009 are limited to 20 percent.

RA member forfeits 30% of her savings

The Financial Services Board (FSB) has been asked by the Pension Funds Adjudicator, Muvhango Lukhaimane, to investigate possible legislative changes to further limit penalties imposed by life assurance companies on retirement annuity (RA) fund members who want to transfer their retirement savings to what they consider to be better RA funds.

Lukhaimane's request follows a determination in which she said that Sanlam was entitled to deduct 30 percent of an RA member's |savings if the member transferred to another RA fund.

Ms M signed up for the PPS RA Fund on June 1, 2005. Its maturity date was 28 years later: February 23, 2033. Her starting contribution of R220 a month was subject to an annual increase of 15 percent.

The underlying investment was a Sanlam endowment policy.

In March this year, Ms M was told that a termination charge (penalty) of R45 860 (the 30 percent maximum allowable) would be applied to her accumulated savings of R152 869 by Sanlam if she transferred her retirement savings to another RA provider.

PPS told the adjudicator that it considered the levying by Sanlam of the termination charges contrary to the new principle-based Treating Customers Fairly (TCF) regulatory regime.

Sanlam argued that the 30-percent penalty was justified in terms of legislation and in accordance with generally accepted actuarial principle.

Lukhaimane, in turning down the complaint, agreed with Sanlam that it is entitled to:

* Levy "an early termination charge on a member's fund value in the event of surrender of the policy prior to the maturity date" in terms of Sanlam's rules and the policy conditions; and

* Deduct 30 percent of Ms M's accumulated savings, because it was correctly computed and is within the maximum amount permissible.

Lukhaimane says Sanlam “is bound to impose a causal event charge in the event of a surrender of the policy for the purposes of a section 14 transfer (to another RA fund) and has no discretion to waive the termination charge”.

But she says that although Sanlam “is acting in terms of its policy provisions, there is clearly a need for further investigation of this issue, including possible legislative intervention”. As a consequence, she referred her determination to the insurance department of the FSB for further consideration.

Lukhaimane took note of PPS’s “resolve to stop the practice of deducting causal event charges, particularly in circumstances where a member simply wishes to transfer to another investment vehicle within the same fund.

“The submissions indicate that the [PPS RA Fund trustee] board is trying its best to act in the best interests of its members in terms of protecting their retirement savings against unnecessary deductions from their fund values,” Lukhaimane says.

PPS welcomes intervention

The PPS Retirement Annuity Fund believes that the life assurance industry should no longer be allowed to levy penalties on your retirement savings when you transfer your savings to a competing retirement product.

Thinus Ferreira, the PPS RA Fund’s principle officer, this week welcomed the intervention of the adjudicator.

He says: “We believe it is important that unfair penalties are no longer levied on any retirement fund members wishing to transfer to new RA funds.”

Ferreira says that in July last year, the PPS RA Fund board of trustees formally requested Sanlam, among other things, to remove the causal event charges.

Sanlam was not prepared to remove the penalties.

Ferreira says that, in the introduction to the new Treating Customers Fairly (TCF) regulatory regime initiative by the Financial Services Board, it states unequivocally that customers should “not face unreasonable post-sales barriers to change products, switch providers, submit a claim or make a complaint”.

He says: “We believe the fact that the member concerned lodged a complaint demonstrates that she regards the penalty levied by Sanlam as a prohibitive post-sales barrier.

“PPS supports the introduction of TCF as soon as possible to ensure that all retirement fund members are able to transfer to other funds without incurring unfair penalties.”

Ferreira says the PPS RA Fund is prepared to assist the FSB in any way possible to facilitate a resolution to this issue and to protect the future interests of both PPS and retirement fund members, including legislative intervention, where required.