

PERSONAL FINANCE

RAs: Manuel's deal 'just a start'

August 25 2013 at 12:05pm
By Bruce Cameron

<http://www.iol.co.za/business/personal-finance>

The Statement of Intent signed in 2005 by then finance minister Trevor Manuel with the life assurance industry should be seen as only the start of changes in the way life companies structure the penalties on retirement annuity (RA) funds. The agreement placed limits on the confiscatory penalties levied on policyholders who reduce or stop their contributions to an RA fund or transfer their savings to another fund within the contract period.

Muvhango Lukhaimane, the Pension Funds Adjudicator, told the annual Institute of Retirement Funds conference this week that life companies will, when a member joins an RA fund, have to be a lot more explicit about all the charges that may apply and how they are calculated.

The penalties are known by the life industry as "causal event charges".

The intervention of Manuel followed successful high court challenges by the life assurance industry to set aside determinations by the then Pension Funds Adjudicator, Vuyani Ngalwane, ordering assurers to pay back the penalties.

"I doubt that anyone who ever had the presence of mind to belong to an RA fund will decide to make the policy paid-up for flimsy reasons. Often, difficult financial circumstances lead to members of retirement annuities reviewing their continued membership of such funds," Lukhaimane says.

She says she does not begrudge life assurers that underwrite RAs recouping their expenses and making a profit. What is problematic is the erosion of all RA membership benefits without the companies explicitly disclosing the penalties and how they are calculated.

"Whatever formula is applied to these costs, members must be able to work out for themselves at the point of contracting what the policy will cost them under different circumstances.

"[Life assurance] RA funds cannot continue to rely on the fact that the charges need not be explicit, as this feeds into the lack of confidence and trust in the retirement funds industry as a whole," she says.

Lukhaimane says the life assurance industry should take account of the trend to employ people on a cost-to-company basis without being offered membership of an occupational retirement fund. This makes RAs the only option for those who want to save for retirement.

"I could hazard a guess that one of the reasons that the costs and fees are not explicit is that the value associated therewith is tenuous and, at best, does not correspond with the amount charged. The Statement of Intent must therefore not be viewed as the be all and end all, but as a beginning," Lukhaimane says.

