Retirement fund ordered to explain investment management fee

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18 June 2014 Muvhango Lukhaimane, Pension Funds Adjudicator

A retirement annuity fund hasbeen ordered by the Pension Funds Adjudicator to explain in detail how a 1% management fee was calculated for an investment.

Muvhango Lukhaimane directed that Lifestyle Retirement Annuity Fund(first respondent) and Liberty Group Limited (second respondent) must produce a breakdown of the management fees levied on a complainant's investments despite their insistence that it was 1% of the investments.

In her complaint, Ms E Herzfeld alleged that maladministration on the part of the first respondent and the charging of excessive fees by the respondents on her retirement annuity fund, had resulted in the poor performance of her investments.

The complainant said she joined the first respondent, a retirement annuity fund administered and underwritten by the second respondent, on 1 June 1996 with the intention of remaining a member until 1 June 2022, a period of 26 years.

The first respondent purchased a policy on the complainant's behalf with the second respondent. The complainant paid a single upfront contribution of R22 329.19. As at October 2013, the complainant's fund credit with the first respondent was R44 173.

The complainant was aggrieved by the poor returns earned on her retirement annuity. She submitted that after turning age 55, she decided to review her policy and was appalled to see that her investment of R22 329.19 had only achieved growth of R44 173 as at October 2013. She attributed the poor performance to the excessive fees levied by the respondents.

The respondents denied the allegation of excessive fees and submitted that the fees levied on the complainant's investments were the 1% investment guarantee charge of R223.48 charged when the policy was acquired and the monthly management fee charged at 1% of the investments. They submitted that the complainant's total management fees since 1 June 1996 when the policy commenced amounted to R5 220.92.

The respondents said reason for the poor performance of the investments was the portfolios in which the complainant was invested. They submitted that during the tenure of her investment, the complainant invested in three portfolios, the Equity portfolio of which the overall performance over a period of four years was a negative 1.64%, the Global portfolio of which the performance over a period of 13 years was 4.83% and the variable portfolio which over a period of two years performed at the rate of 12.90%.

The respondents submitted that the complainant was briefed annually on the performance of each portfolio and was informed of the option to switch to portfolios that suited her risk profile, an option which she exercised twice.

In her ruling Ms Lukhaimane said her Tribunal was satisfied that the cause of the complainant's poor returns was not due to excessive fees. The management fees of R5 220.92 charged over a period of 17 years on an initial investment of R22 105.71 did not appear excessive. Her investment return was determined in accordance with her selected investment portfolios and the market performance in her selected portfolios.

The respondents duly communicated the necessary information about the performance of the investments to the complainant annually and they invested her funds as per her instructions.

"The complainant is reminded that when one decides to invest in the markets, more so when the member has a choice to elect where her funds should be invested, she should be ready to bear any positive and negative returns inherent in the swing of the markets.

"In the event, this Tribunal is not convinced that the complainant has been able to establish that the loss incurred in her investments was as a result the first respondent's maladministration or due to excessive fees charged by the respondents," said Ms Lukhaimane.

However, she went further and noted with concern the submission by the respondents that they were unable to produce a breakdown of costs (management fees).

"This admission by the respondents falls short of the openness required by the treating customers fairly (TCF) initiative with which the respondents associate themselves.

"As a result, this Tribunal orders the first respondent to provide the complainant with a breakdown which shows how it quantified the 1% management fee that was levied on the complainant's investments," said Ms Lukhaimane.

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