PERSONAL FINANCE

TCF ‘requires openness on fees’

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The Pension Funds Adjudicator has ordered a retirement annuity (RA) fund to explain how management fees were calculated on an investment, although she acknowledged that the fees were reasonable and were not the cause of the investor’s poor returns.

In a recent determination, the adjudicator, Muvhango Lukhaimane directed the Lifestyle RA Fund and the Liberty Group to produce a breakdown of the annual management fee levied on a woman’s investment despite their insisting that it was only one percent.

In her complaint, Ms H alleged that maladministration on the part of the Lifestyle RA Fund, as well as the charging of excessive fees by Liberty and the fund, had resulted in her investment performing poorly.

Ms H said she joined the Lifestyle RA Fund, which is administered and underwritten by Liberty, on June 1, 1996, with the intention of remaining a member until June 1, 2022, a period of 26 years.

The Lifestyle fund had purchased a policy from Liberty on Ms H’s behalf with her single upfront contribution of R22 329. As at October 2013, her fund credit was R44 173.

Ms H submitted that, after turning 55, she decided to review her policy and was appalled to find that her investment had grown by less than 100 percent over more than 17 years. She attributed the poor performance to the excessive fees levied by the respondents.

In their response, the Lifestyle fund and Liberty denied that the fees were excessive. They said the fees levied on the investment were a one-percent investment guarantee charge of R223, when the policy was acquired, and an annualmanagement fee of one percent. They submitted that the complainant’s total management fees since inception amounted to R5 220.

The respondents said the reason for the poor performance of the investment was the portfolios in which the complainant was invested.

They said the complainant invested first in an equity portfolio, of which the performance averaged minus 1.64 percent a year; then in a global portfolio, which returned an average of 4.83 percent a year; and finally in a “variable” portfolio, which returned an average of 12.9 percent a year.

The Lifestyle fund and Liberty submitted that the complainant was briefed annually on the performance of the portfolio and was given the option to switch to a portfolio that suited her risk profile, an option that she exercised twice.

In her ruling, Lukhaimane says her tribunal was satisfied that Ms H's poor returns were not due to excessive fees. The management fees did not appear excessive. Her return was determined in accordance with her selected investment portfolios and the market performance in those portfolios.

"[Ms H] 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 [poor performance of] her investments was as a result of [the Lifestyle fund's] maladministration or due to excessive fees charged," Luk-haimane says.

However, she noted with concern that the Lifestyle fund and Liberty were unable to produce a breakdown of the management fees.

"This falls short of the openness required by the Treating Customers Fairly initiative with which the respondents associate themselves," Luk-haimane says in her determination.

She ordered the RA fund to provide Ms H with a breakdown showing how it quantified the one-percent fee levied on the investment.

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