Sanlam Response to PPS

Decision by Board of Trustees of the PPS Retirement Annuity Fund to close the Fund's Underwritten Section to new investors

The Board of Trustees of the PPS RA Fund has taken a decision to close its underwritten Retirement Annuities (RAs) to new business. This decision takes effect on 1 October.

On Friday, 14 September the principal officer of the Fund informed Sanlam of this decision. Intermediaries and the general media were notified on the same day and news regarding this started to appear in the press at the weekend of 15 September.

From a professional courtesy point of view, we are disappointed that Sanlam was not informed of the decision early on. As a result of the late notification, PPS accredited intermediaries will have very little time to get their advice processes to their clients in order.

What is the decision about?

From 1 October the PPS RA (underwritten by Sanlam) will be closed for new business, as well as for new *ad-hoc* premium increases or *ad-hoc* single premiums on existing business. In future, only the 'lower-cost, versatile' (to use their words) PPS Investments RA, i.e. the unit-trust based option, will be available for new business and increases at PPS.

The main reasons provided by the Board of Trustees of the PPS RA Fund for this decision, as noted in the media coverage, are 'complicated fee structures', inflexibility, large termination charges because of the nature of up-front commission on underwritten RAs as well as value for money (RIY).

Sanlam's reaction

We believe the decision by the Board of Trustees of the PPS RA Fund presents a one-sided view with regards to underwritten RAs in general. As noted in their PPS RA Fund marketing material, PPS views 'traditional policy based membership' (i.e. underwritten RAs) as expensive, less transparent and inflexible. 'Modern unit-trust based membership' is viewed as cheap, more transparent, and flexible; and tailored to the individual.

We believe that there is room for both underwritten and unit-trust RAs.

New generation underwritten RAs (like the 'Stratus' PPS RA sold since 2000) are, in most regards, almost exactly the same as 'modern unit-trust' RAs.

These new generation underwritten RAs are competitively priced, transparent and flexible, and also tailored to the needs of the individual. They offer flexibility to choose investment portfolios from leading asset managers, as well as the ability to switch between these portfolios at no additional fees. The only difference is that early termination charges may be levied on early termination or premium reductions.

In circumstances when premiums can no longer be paid, the (underwritten policy) PPS RA member has two options:

- Applying for a premium holiday of up to 12 months when premiums are not required to be paid without any early termination charge being levied;

– Making the policy paid-up, which will result in an early termination charge levied. If the premium is later reinstated, a large part of this early termination charge is then refunded on the policy, effectively resulting in a very small early termination charge levied.

Furthermore, while the old dispensation of upfront commissions may have led to larger early termination charges, new regulations regarding underwritten RA's have reduced early termination charges significantly and balances the interests of all industry stakeholders.

It allows intermediaries to still earn some commission upfront, which enables them to provide advice to clients who might otherwise not be able to afford advice. This helps to ensure that South Africans continue to save for their retirement. These regulations also allow for a portion of on-going fees similar to those of unit trust-linked RAs.

Whereas it is true that the old generation or so-called legacy product (sold prior to 2000) is less flexible than the new generation product (e.g. switches between different investment funds are not possible), it is possible to convert these old generation policies to the latest new generation product and, thereby, have full flexibility. In addition, underwritten RAs provide benefits not available in a non-underwritten RA, including investment guarantees, smoothed bonus portfolios and disability benefits.

At Sanlam we believe the key success factors in saving for retirement is not the type of RA selected, but whether clients are persistent in saving and whether their money has been invested in the most appropriate investment funds within their RA's.

It is critical to communicate to your clients that underwritten RAs, and specifically newer generation underwritten RAs, still provide excellent value and that their existing PPS RAs offer great value.

What options do your clients have?

Based on the decision by the Board of Trustees of the PPS RA Fund, your clients will be able to retain their existing PPS RA, but will have to invest *ad hoc payments* in a new RA, for example in the PPS unit-linked RA, or in Sanlam's unit-linked alternatives or in a Cobalt for Professionals RA with the associated benefits offered like the Sanlam Retirement Booster (SRB). Minimum premium requirements may also become an issue here.

OR

Clients will have to change their existing PPS RA through a Section 14 transfer to an alternative RA which can accommodate all increases etc. in future. In this case, we propose that the obvious best alternative is for clients to do a Section 14 transfer to the Cobalt for Professionals RA in CRAF, because there are NO COSTS involved as the underlying policy structure remains intact, AND it's great for clients, as they get the SRB as an additional bonus.

They will also be able to continue accessing the benefits available on their existing RA, but not under the PPS unit-linked RA. These include premium-waiver benefits on premium increases, contribution increases in smaller increments, investment guarantees and smoothed bonus portfolios.

Remember, there will be no change to the old policy’s original commission structure.

We assure you that we, at Sanlam, are working full speed to ensure that these processes will be as smooth as possible for you and your clients. More information about these Section 14 transfers will be communicated shortly.