Sanlam says its RA is not so bad

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By Bruce Cameron

A 50-year association is coming apart, with a war of words between financial services companies Sanlam and PPS over a decision announced last week that the PPS Retirement Annuity (RA) Fund will be closing a Sanlam life assurance investment option to new business from month end.

PPS is a financial services company dedicated to providing services to professionals with four or more years of tertiary education. Initially, the Sanlam RA option now to be closed to new business was the only option on offer to PPS members. PPS members will now be limited to a unit trust option offered in conjunction with asset manager Coronation.

Sanlam claims that its option is not as bad as the PPS board of trustees claims it to be. Sanlam is now using the opportunity in competition with PPS to market its Stratus RA to PPS members.

The PPS RA Fund has for the past 12 years offered two RA investment options:

* The life assurance investment option underwritten and extensively sold by Sanlam, in which about 118 000 PPS RA Fund members have about R24 billion invested. This option will stay open for current members until all existing investments mature. Members who make monthly contributions will be able to continue to do so.

* A unit trust option, called PPS Investments RA, offered in conjunction with Coronation Fund Managers. The PPS Investments RA is a lower-cost, versatile product that allows members to increase, decrease or stop paying their contributions without incurring a penalty.

The claims and counter-claims being made about the products shows how difficult it is for consumers, and even their advisers, to assess which products are the most appropriate for their hard-earned savings.

The trustees of the PPS RA Fund are telling members that its unit trust option is the better of the two and feels that all new RAs it provides should be the unit trust choice only.

Thinus Ferreira, principal officer of the PPS RA Fund, says one of the biggest drawbacks of life assurance RAs is that they have complicated fee structures, which include some fees being charged upfront.

In contrast, unit-trust-based products “charge far lower fees and do so as and when investment contributions are made – not upfront. Over time, that has the potential to make a significant difference to the total,” he said last week.

But in a statement issued this week Hennie de Villiers, chief executive of Sanlam individual life and segment solutions, says: “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.

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

This particularly with new-generation underwritten RAs, such as its Stratus version, which, he says, are largely the same as unit trust RAs.

“New-generation underwritten (life assurance) RAs are competitively priced, transparent and flexible, and also tailored to the needs of the individual,” De Villiers says.

In fact, the costs, he says, are so competitive that over the longer term of 15 years plus, the costs of a life assurance RA will have less impact on your end benefit than the costs of a unit trust RA.

De Villiers, not surprisingly but unacceptably, attempts to downplay the real Achilles heel of the life assurance RAs, namely the confiscatory penalties that can be applied if you reduce or stop paying your contributions, or if you transfer your savings to another product provider before the maturity date.

He dismisses the confiscatory penalties as only a "philosophical difference" between life assurance and unit trust RAs. This is absurd, considering the billions (not millions) of rands that life assurance companies have taken off savers over the years consequent of the confiscatory penalties. There are no such penalties on unit trust RAs.

Then he cynically adds that life assurers offer a product without the penalties, but – and this is a big but – this "will, however, necessitate an increase in the total charge levied against all policyholders".

The problem with the penalties is that they are applied even when someone cannot afford to maintain the contributions because of loss of income, such as business bankruptcy, retrenchment or ill-health.

De Villiers does offer a bit of solace. He says when contributions can no longer be paid, the PPS RA member using the Sanlam option has two options, namely:

* Applying for a premium holiday of up to 12 months, when premiums are not required to be paid, without any penalty being levied; or

* Making the policy paid-up, which will result in a penalty being levied. If the premium is later reinstated, a large part, but not all, of the penalty is then refunded, resulting in a very small penalty being levied.

One point on which he has a sound argument is that you can get guarantees on your RA savings only by using a life assurance RA – there are no guarantees available for unit trust RAs.

Sanlam is currently encouraging PPS members to move to another of its RA products – Stratus – without any penalty being levied for the change, while levying penalties for any member switching to the PPS RA unit trust option.

De Villiers says Sanlam is able to do this because underlying both the PPS RA life assurance option and the Stratus RA is the Central Retirement Annuity Fund (CRAF), which is underwritten by Sanlam. The CRAF guarantees to pay benefits when they are due.

"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 PPS RA Fund to the CRAF. The policy … is not terminated, but simply transferred to the new fund," De Villiers says. He says, however, when a member wants to move from the Sanlam RA option to the unit trust of the PPS RA Fund, the underlying policy is terminated and a penalty is levied.

There are also differences of opinion between Sanlam and the PPS RA trustees about what commissions and advice fees are paid in any switch between products.

De Villiers says it is also important to note that Sanlam does not pay any intermediary remuneration on these transfers, as this is explicitly prohibited by the Pension Funds Act.

But, he says, whenever an RA policy is moved to the unit trust RA within the PPS RA Fund, it is possible for the intermediary to negotiate an "initial intra-fund conversion fee" of up to 1.5 percent of the transferred amount, which will further erode the RA's value. Sanlam believes that this is against the spirit of the law.

De Villiers says nothing about the trail advice fee that is paid on Stratus products or the fact that PPS RA members who transfer to the non-PPS RA Sanlam Stratus RA will lose their profit share from PPS. (PPS is a mutual company so profits are added to the retirement savings of members, adding to their end benefit.)

The industry simply has to be forced to be a lot more transparent so that consumers are not left muddled by such clashes, making it difficult to decide what is in their best interest.

COUNTING COSTS

Claims by Sanlam that its RAs are cheaper than the PPS unit trust RA option are based on calculations done in 2000.

Personal Finance has initiated research on the various cost claims to establish the precise situation.

Early indications are that both products will prove to be expensive, confirming past Personal Finance research that both life assurance and unit trust RAs operating off a linked investment service provider administration platform tend to have higher costs than unit trust RAs offered by a unit trust company with underlying choices limited to the funds offered by the company.