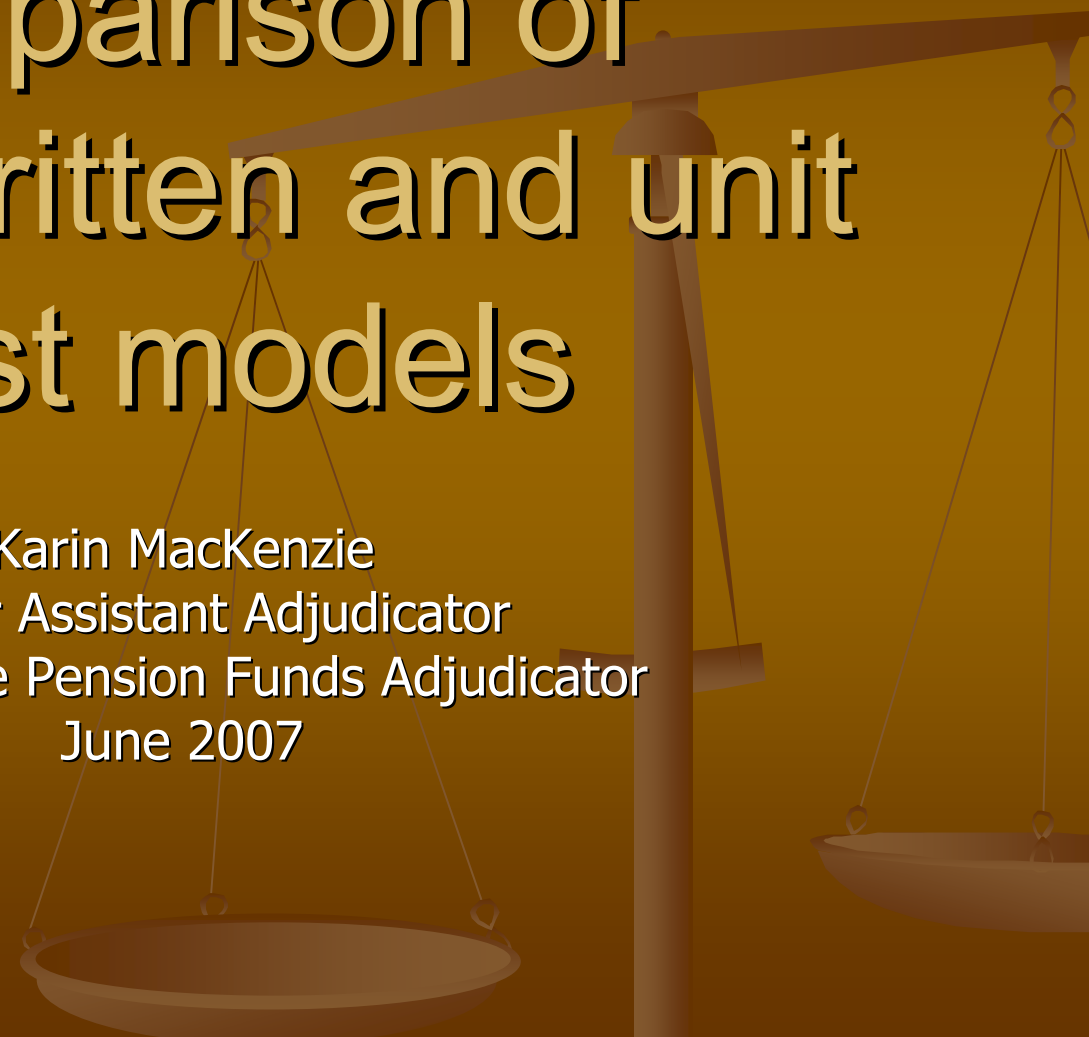
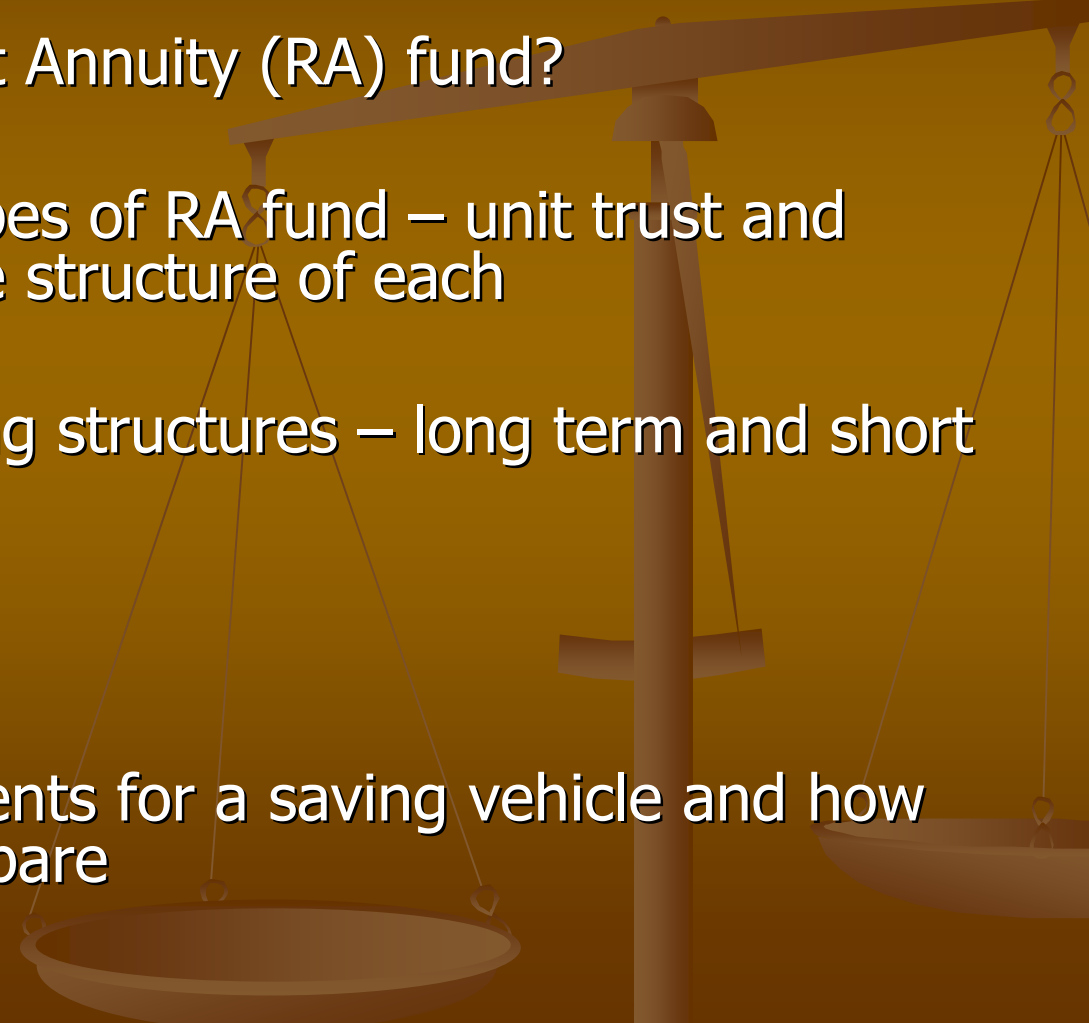


# RA funds – a comparison of underwritten and unit trust models

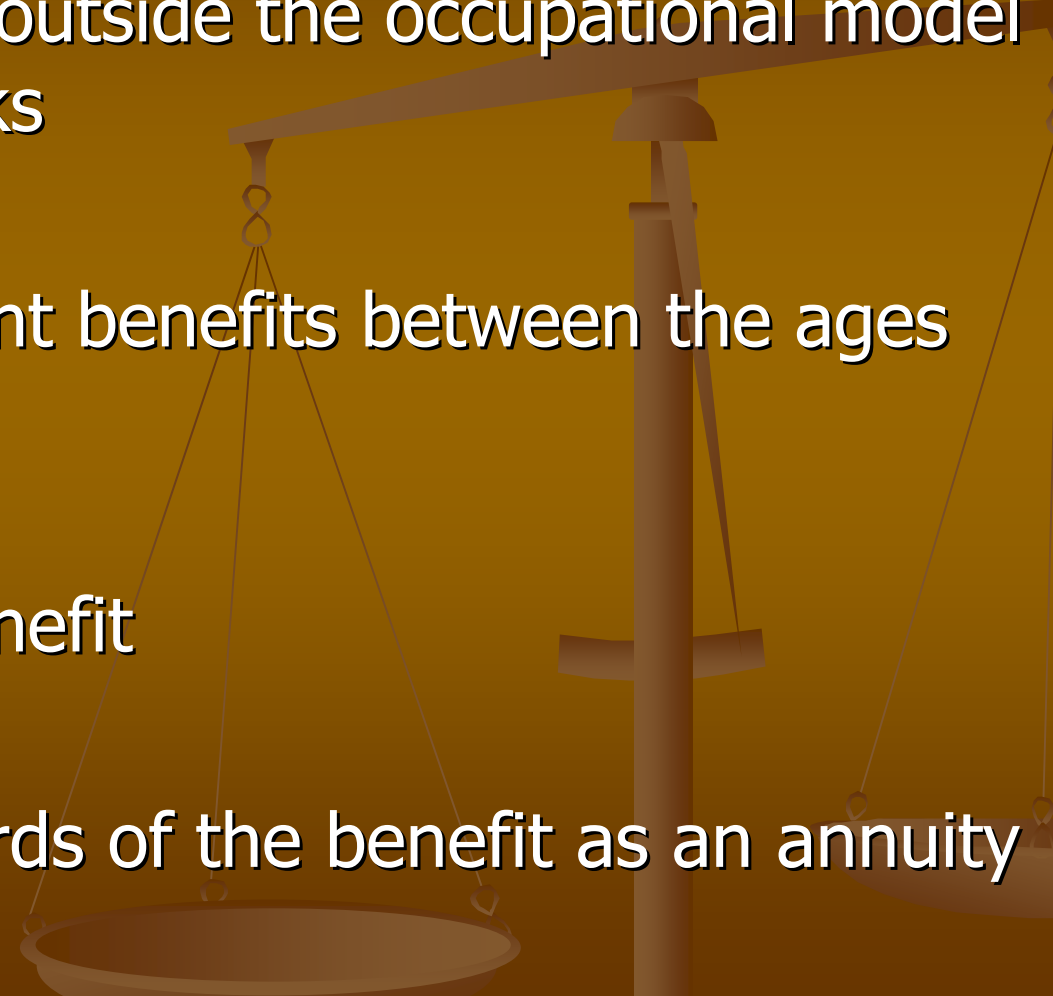


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Senior Assistant Adjudicator  
Office of the Pension Funds Adjudicator  
June 2007

# Overview

- What is a Retirement Annuity (RA) fund?
  - The two different types of RA fund – unit trust and underwritten and the structure of each
  - Comparison of costing structures – long term and short term
  - Transfers
  - Suggested requirements for a saving vehicle and how the two models compare
- 

# What is a RA pension fund?

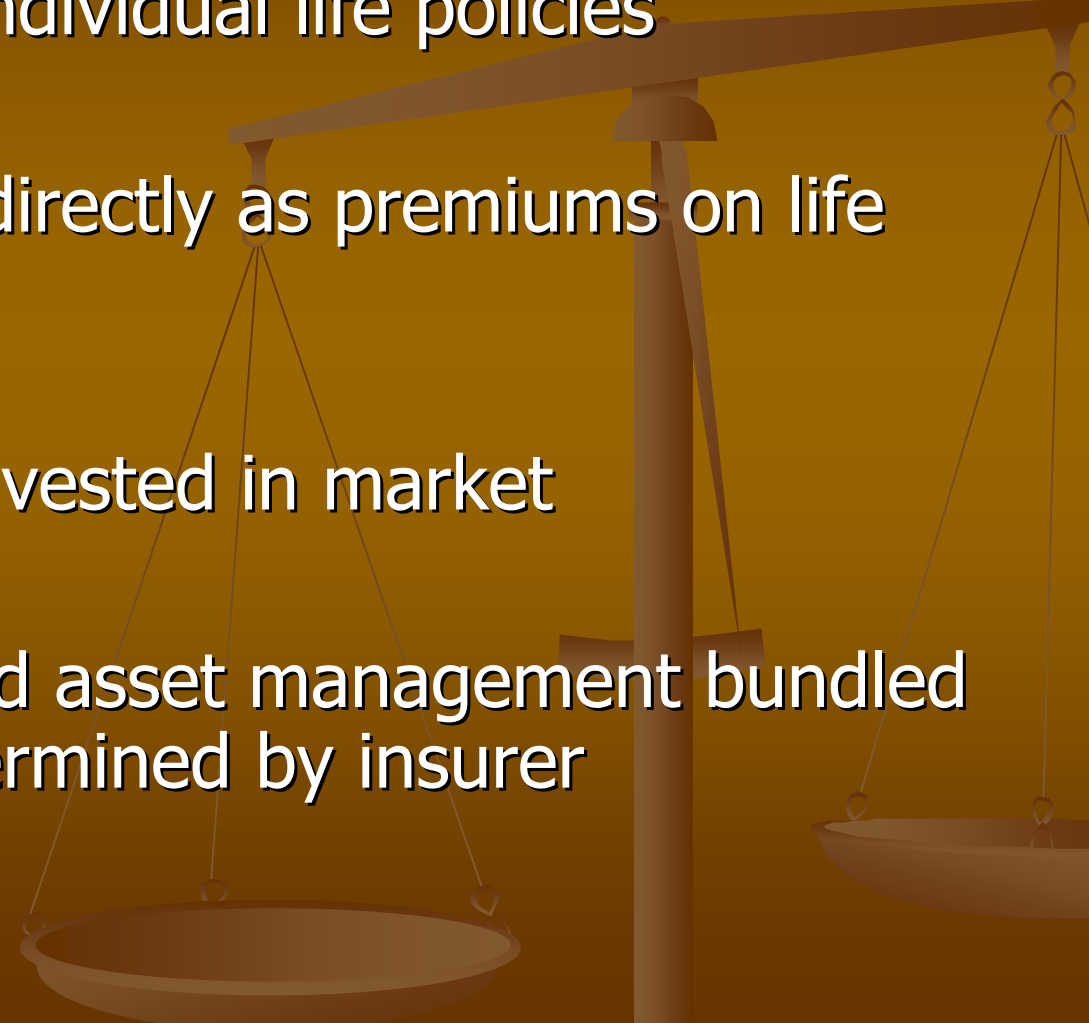
- A savings vehicle outside the occupational model with the tax breaks
  - Provides retirement benefits between the ages of 55 and 70
  - No withdrawal benefit
  - Must take two thirds of the benefit as an annuity
- 

# The unit trust model

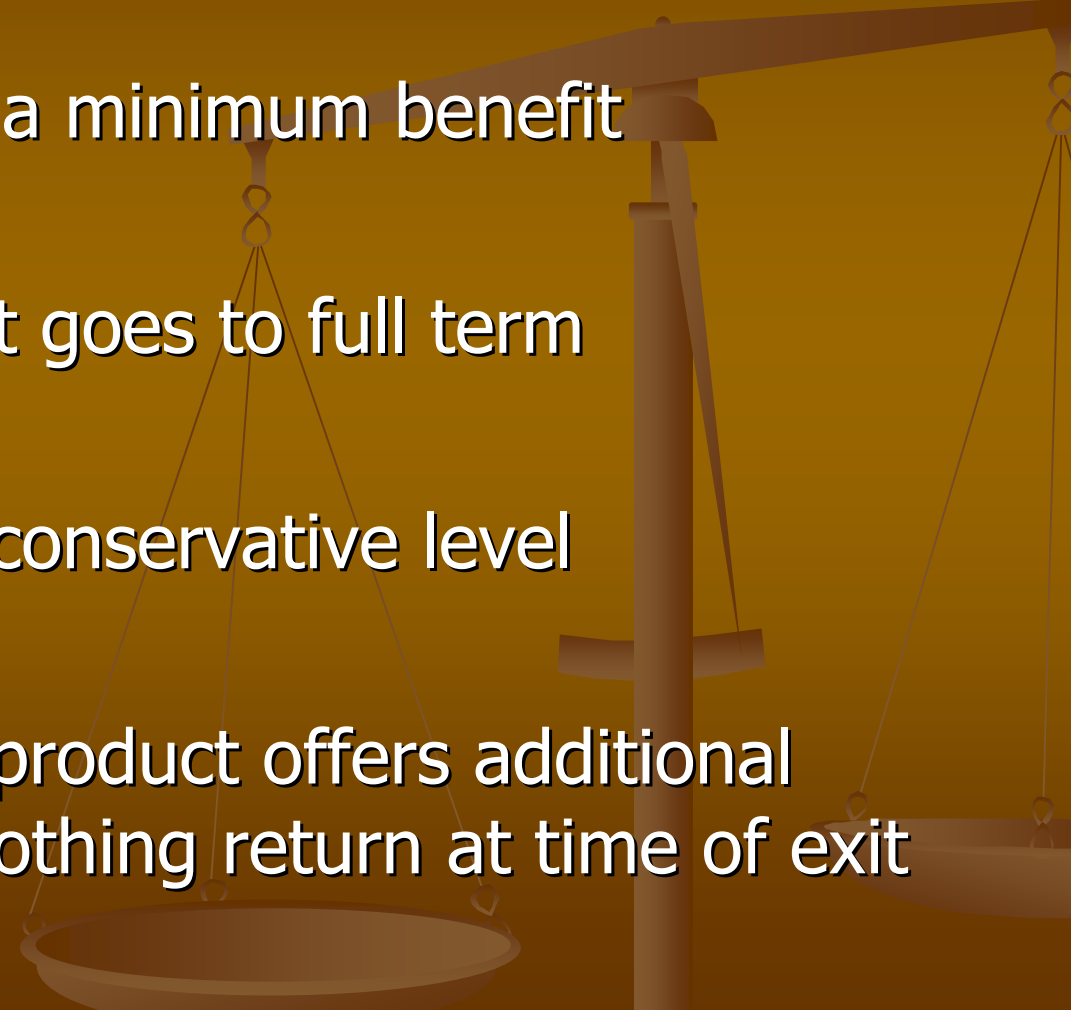


- Approximates a defined contribution model
- Invested directly in the market
- $\text{Fund value} = \text{contributions} + \text{market return (positive or negative)} - \text{costs of fund management and administration}$
- Costing structure  
Determined on a pay-as-you-go basis  
Usually expressed as a percentage of funds under management

# The underwritten model

- Funded through individual life policies
  - Contributions go directly as premiums on life policy
  - Life policies are invested in market
  - Costs of policy and asset management bundled together and determined by insurer
- 

# What are you paying for?

- The guarantee of a minimum benefit
  - Only operative if it goes to full term
  - Pitched at a very conservative level
  - Smoothed bonus product offers additional guarantee of smoothing return at time of exit
- 

# Comparison of costs over the long term – 40 years

## *Reduction in yield*

Unit trust products  
Individual policies  
Smoothed bonus

Low

1.20%

1.50%

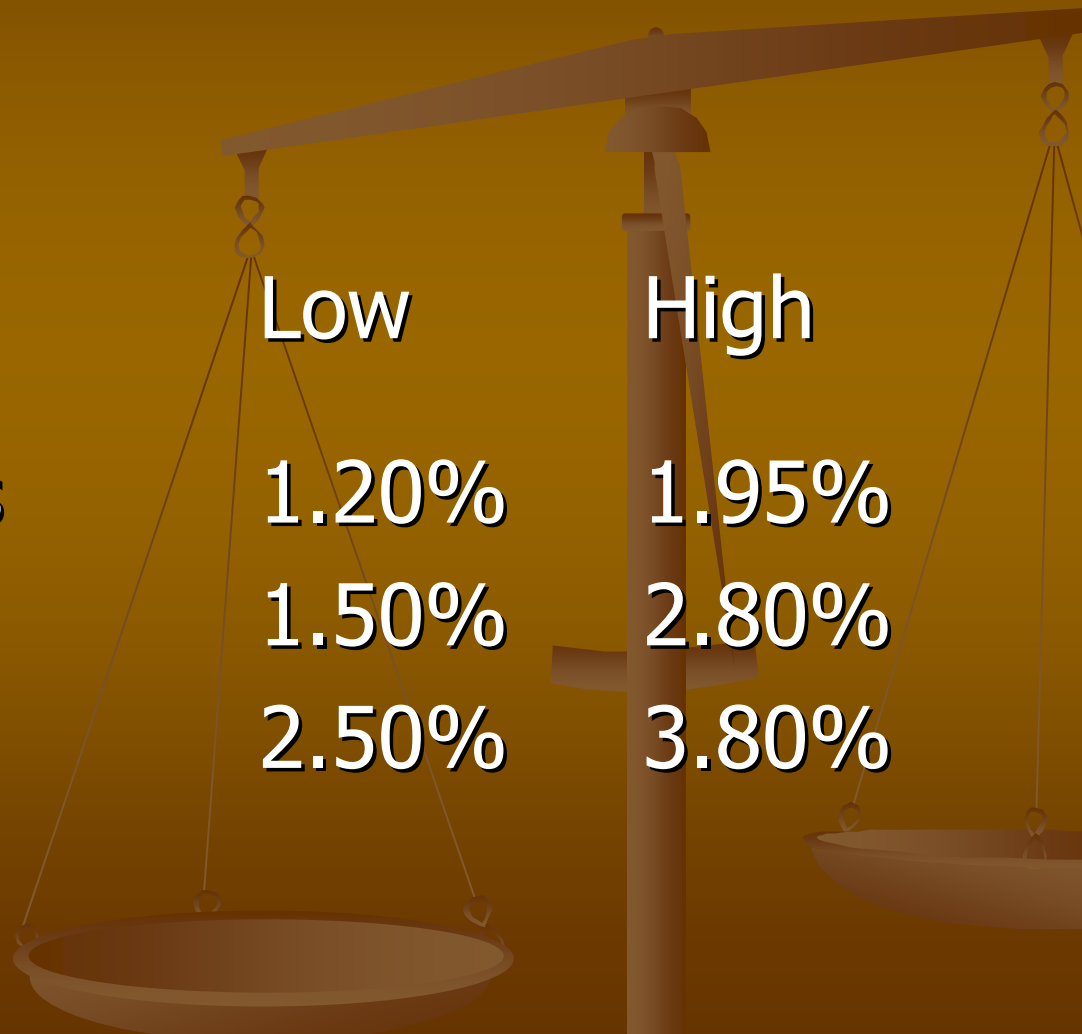
2.50%

High

1.95%

2.80%

3.80%



# Comparison of costs over the long term – 40 years

## *Charge ratio*

Unit trust products  
Individual policies  
Smoothed bonus

Low

High

22.3%

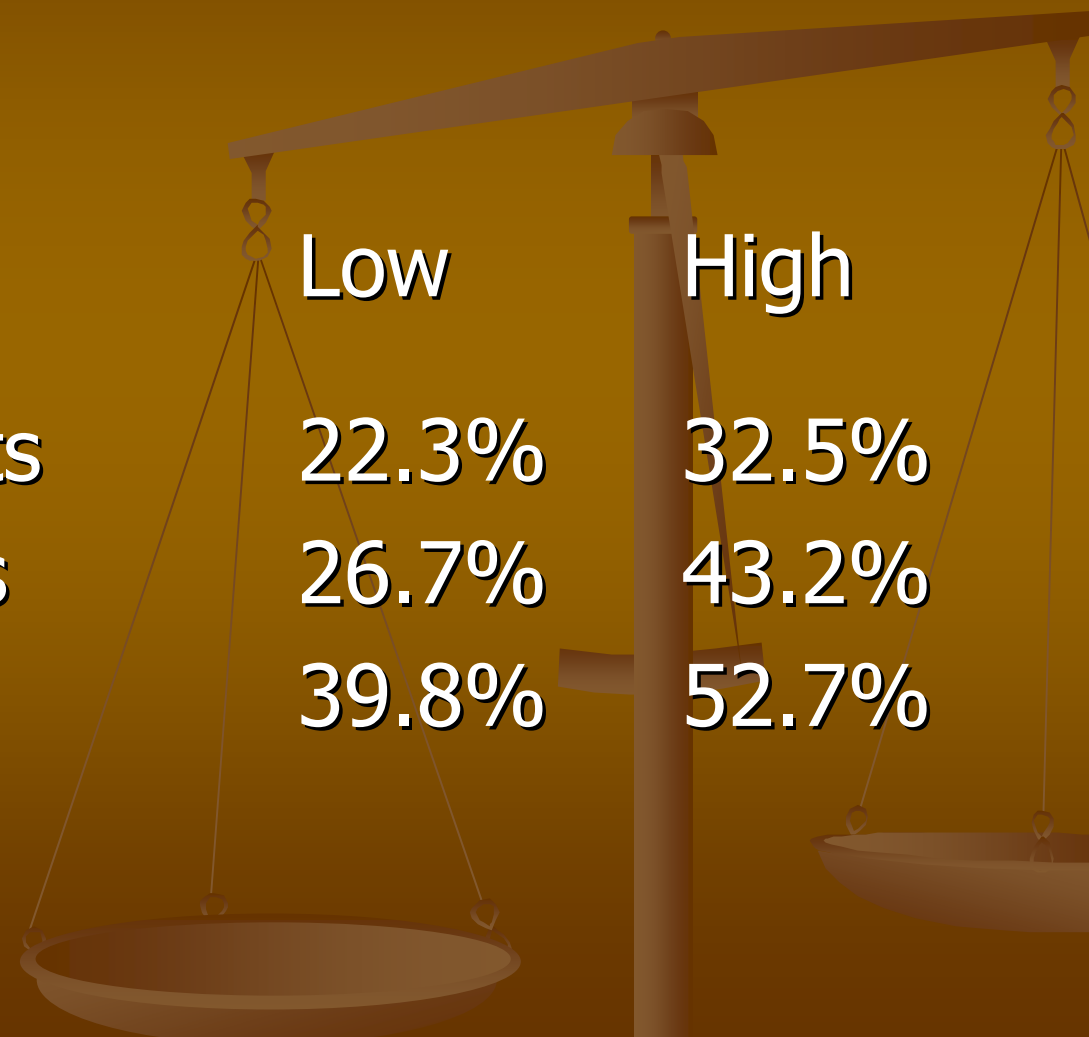
32.5%

26.7%

43.2%

39.8%

52.7%





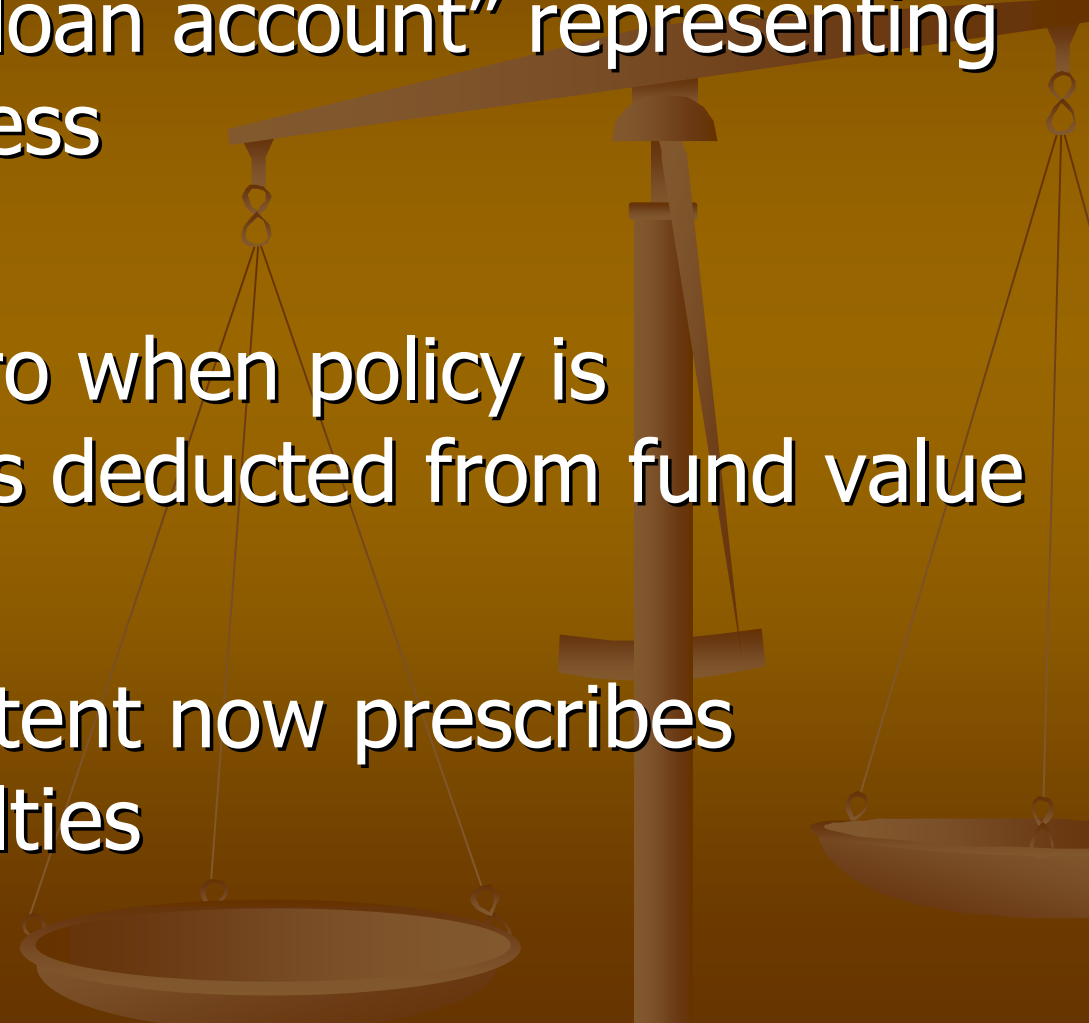
# Costs over short term

## Unit trust

- Pay as you go
- Assets remain invested in fund and admin costs debited as and when they accrue



# Underwritten

- Insurer keeps “loan account” representing your indebtedness
  - If this is not zero when policy is surrendered it is deducted from fund value
  - Statement of intent now prescribes maximum penalties
- 

# Policy alteration penalties

## *Botha v Central Retirement Annuity Fund*

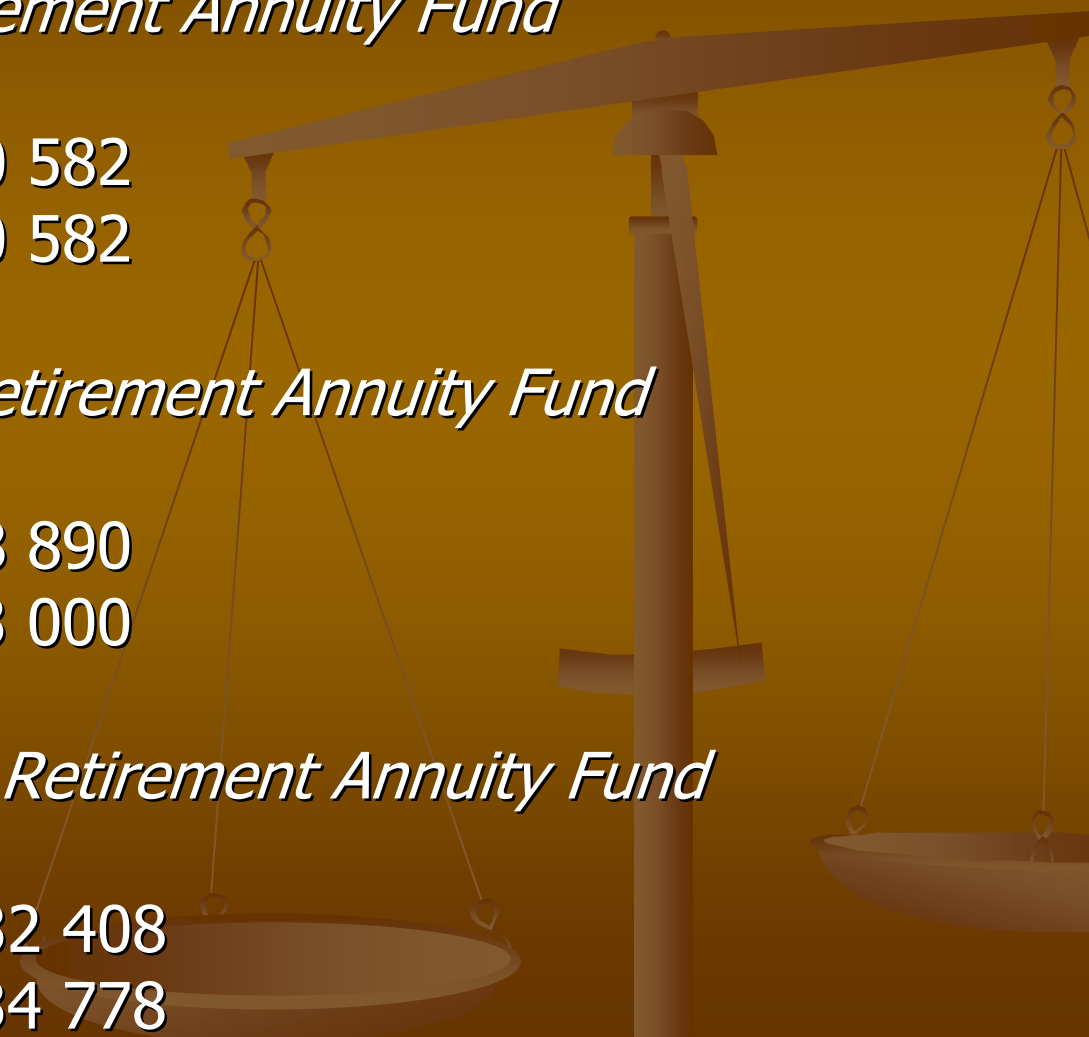
|             |         |
|-------------|---------|
| Contributed | R50 582 |
| Penalty     | R50 582 |

## *Schwartz v Central Retirement Annuity Fund*

|             |         |
|-------------|---------|
| Contributed | R48 890 |
| Penalty     | R43 000 |

## *Du Plessis v Lifestyle Retirement Annuity Fund*

|             |          |
|-------------|----------|
| Contributed | R232 408 |
| Penalty     | R134 778 |



# Transfers



- Historically the underwritten funds have prevented transfers to other RA funds
- New amendments will ensure that transfers are permissible
- Problem will be the transfer value and penalties that attracts

# Requirements for retirement saving vehicles

- Flexibility of rate of saving
- Transferability of investment
- Optimum yield in long term

