How to avoid that penalty on your RA

By Graham Turnbull

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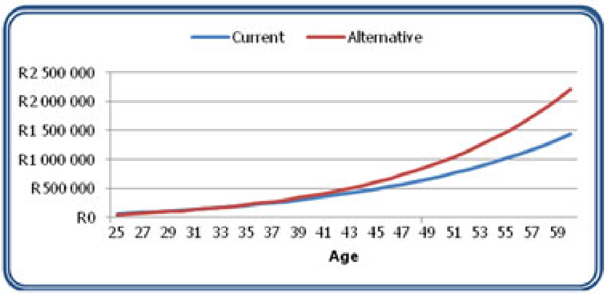
We invest in a retirement annuity to ensure we can live comfortably in retirement - but what happens when a penalty promises to take a massive chunk out of your savings?

Q: My name is Michelle. I am 25 and save R600 a month in a retirement annuity. I am thinking of moving this, but I have been told there is a R13,215 penalty on my R52,450 savings. What can I do?

A: We have helped many individuals in this position and you are fortunate in that you have a long time horizon to your eventual retirement. This means there is plenty of room to outshine your current RA and render the penalty meaningless. However as always, there must be a compelling reason for you to move your RA and it is not a decision you should make lightly. You need to do all your homework and make an informed decision.



The only reason to really change would be if the returns you achieve net of costs over time can be improved so as to accumulate to a sufficient level for retirement. Penalties are invidious - but you can mitigate them effectively (as demonstrated above).

At this point it becomes about whether it is possible to enhance the projected yield of your RA at retirement date with another RA platform. On a traditional RA product this is usually the case.

What to do

Your first step is to get all the policy info on your RA and find out how it has performed and where it stands today.

Ask your financial advisor to help you unpack:
• What is my RA worth now?
• What portfolio is it invested in and what has been the return on that portfolio over 5 years?

The next step is to look at what is reducing your investment returns.

Check that your costs and fees are well under 2.0% - remember the higher the costs the less return you will have at retirement. If you can save even 0.5 % per annum on costs you will have more savings and as the savings compound over time you will have more in the long run.

You may have to be bold with your advisor. You need to ask:
• Can I get a product that costs less (understanding all the costs involved)?
• Is there another product that can produce better returns for me in the long run?

If you can do either of the above it is still sufficient reason for you to consider changing your RA product.

ABOUT GRAHAM TURNBULL

Graham Turnbull is the Chief Executive Officer at LifeSense Financial Services (Pty) Ltd.
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