

# RA transfers - what you should know

## 1 You may transfer your life assurance retirement annuity to another fund

Over the last few years there have been many changes in the retirement fund industry, resulting in more flexibility for you. In the past many life assurance companies offering retirement annuities (RAs) did not permit you to transfer your RA to other funds. However, in 2007 changes to the Pension Funds Act made it illegal for companies to prevent transfers. The changes to the legislation have paved the way for you to move from one product provider to another, should you wish to do so. In addition to the traditional life assurance RAs, there are a host of unit trust RAs, which offer you a cost efficient and flexible way to save for retirement.

## 2 Life assurance RAs attract transfer penalties, but these are now capped

Although you may now move your retirement nest egg from a life assurance RA to another RA, you might face penalties. Commissions and other costs payable by members are structured over the investment term of life assurance RAs. For example, if you have an investment term of 20 years and you want to transfer to another fund after only three years of making contributions, you will still have to bear the costs over the entire life of the RA (contract period of 20 years). In the past there was no limit on transfer penalties, but in 2007 the government introduced a maximum penalty of 30%. Hence, a life assurance company may not charge you more than 30% of the investment value of your RA should you decide to transfer your capital to another fund. Depending on your circumstances, you could be charged less. This year the penalties are less severe for new RA members. Life assurance RAs sold from 1 January 2009 will carry a maximum penalty of 15% on transfer.

## 3 Smoothed bonus fund members may face additional deductions on transfer

One of the options available in a life assurance RA is a smoothed bonus fund. This means that insurance companies smooth your investment returns over time and offer certain performance guarantees.

When moving your capital from a smoothed bonus fund to another RA, you may not only have to pay transfer penalties but could also face an additional deduction in the form of a market value adjuster (MVA). For example, an MVA could be applied when markets have suffered severe losses. If the life assurance company applies an MVA, the capital available for transfer will therefore be further reduced.

## 4 Should you transfer?

There are no easy answers and your individual circumstances would have to be assessed carefully. Ultimately you want to retire with the highest capital sum possible. If you are thinking of moving your capital from a life assurance RA to a unit trust RA, you need to consider factors such as:

- **Costs:** The lower your fees, the more capital you have to grow your retirement nest egg.
- **Flexibility:** The freedom to reduce monthly contributions, make the RA paid up or transfer your RA to another fund, without facing penalties.
- **Potential investment return:** This depends on factors such as the fee structure, underlying investments and the portfolio manager's skills.
- **Investment term of RA:** You need time in the market to recover from transfer penalties on life assurance RAs.
- **Life insurance:** Some traditional RAs are bundled with life insurance and should you move, you need to make provision for this.

Although fees have a significant impact on investment returns, you should not only focus on this aspect. The penalties that you face on transfer could make it prohibitive to move if you only have a few years to retirement. Therefore, the investment term i.e. the number of years before your life assurance RA matures, is a key factor to consider.

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## 5 Sometimes it's better to stay put

You may be tempted to transfer to a unit trust RA if you believe that it will provide you with better returns than your life assurance RA. However, the transfer penalties could make such a move unattractive. Investec Asset Management's calculations illustrate that in some instances transfer penalties mean that it is better to stay where you are. The table shows various combinations of life assurance transfer penalties, expected outperformance from a unit trust RA, and years needed to recover from a transfer. For instance, it can take between 14 and 40 years to recover from a 30% transfer penalty, depending on how much better your net return might be in the unit trust RA fund.

### Number of years to recover

Expected outperformance	TRANSFER PENALTY AND MVA		
	10%	20%	30%
1%	12 years	25 years	40 years
2%	6 years	13 years	20 years
3%	4 years	9 years	14 years

Source: Investec Asset Management

The calculation assumes that the life assurance RA returns 10% per annum, while the unit trust RA returns either 11%, 12% or 13% per annum, net of fees. Therefore, the assumed outperformance of the unit trust RA is 1%, 2% or 3%, depending on the investor's expectations.

## 6 When would a transfer make sense?

The more years that you have before retirement, the more opportunity you have to recover from a transfer penalty. For example, if you believe that the unit trust RA can deliver 2% per year more than your life assurance RA, and the transfer penalty is 20%, then a transfer only makes sense if the remaining term is 13 years or more. This is illustrated in the table.

## 7 Find out what a transfer from your life assurance RA will cost you in penalties

Find out what your transfer penalty and market value adjustor (MVA) will be if you are considering moving your life assurance RA to another fund. Ask your financial adviser to contact the relevant life assurance company. If you are unsure about transferring your RA to another fund, please consult your financial adviser.

## 8 No transfer penalties for unit trust RAs

In respect of unit trust RAs no penalties are payable on transfer from a unit trust RA. You benefit from only paying fees as and when costs are incurred, as opposed to having to pay costs upfront over the entire contract period as is the case with most life assurance RAs.

### What is a unit trust RA?

This is a tax-efficient personal pension invested in unit trusts and offered by an investment platform or a unit trust company. Fees are paid as and when costs are incurred. Hence, no transfer penalties apply. Unit trust RAs typically offer greater choice and flexibility when compared to life assurance RAs.

### What is a life assurance RA?

This is a tax-efficient personal pension invested in smoothed bonus or market-linked investment policies and offered by a life assurance company. Costs are recouped over the term of the contract. Hence, the need for transfer penalties.

### What is a smoothed bonus fund?

This is usually one of the options available in a life assurance RA. The life assurance company smooths the fund's investment returns over time and offers certain performance guarantees. When transferring out of a smoothed bonus fund, investors could also face an additional deduction in the form of a market value adjuster (MVA).



The freedom to change your contributions, make your RA paid up or transfer to another RA without facing any penalties.

## 9 Why Investec iSelect Retirement Annuity?

Saving for your future is simple with the iSelect Retirement Annuity, Investec's latest unit trust RA. It is ideal for individuals who are self employed or are already contributing to an employer's retirement fund and would like to make additional savings for retirement. The iSelect RA offers you the following benefits:

- A range of top quality unit trust funds with which to build your portfolio
- The flexibility to switch between unit trust funds as your financial needs change
- Cost efficiency - flat annual administration fees reduced by fund refunds, and negotiable advice fees
- Transparent pricing and performance
- Tax efficiency - contributions are tax deductible within certain limits
- Online transactions and access to portfolio information via a secure website
- Online statements with relevant information that is easy to understand
- A flexible retirement date – any time after age 55
- The freedom to change your contributions, make your RA paid up or transfer to another RA fund without facing any penalties

## 10 Contact us

### Financial advisers:

- Please visit our website at [www.investecfunds.co.za](http://www.investecfunds.co.za) for more information on iSelect's range of unit trust funds and portfolio products. You'll also find application forms and other key literature on the site.
- For more information and assistance with investing, call Investec Client Service on 0860 500 100.

### Individual investors:

- Please visit our website at [www.investinyourfuture.com](http://www.investinyourfuture.com) to learn more about saving for your retirement and iSelect's range of unit trust funds and portfolio products. You'll also find application forms and other key literature on the site.
- For more information and assistance with investing, call Investec Client Service on 0860 555 700.



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