

# It makes sense to wrap your unit trusts in an RA

Please note that these points are generic and will not necessarily apply to every individual. We recommend that you get professional and independent advice.

Unit trusts (UTs) remain one of the most convenient and transparent ways to invest in your future. When saving for retirement some people consider investing in unit trusts rather than making use of RAs. They believe that this is a more cost efficient way to save for their future. The good news is that unit trust RAs can be just as cost efficient as investing in unit trusts without an RA wrapper. What's more, unit trust RAs offer a host of tax advantages and other benefits. By saving on tax you can help to grow your nest egg faster.

## ● Biggest advantage

- Retirement annuities are tax-free while they grow, whereas unit trusts generate taxable distributions and are subject to capital gains tax (CGT).
- This tax-free growth could mean a net return of 2% per annum more from your UTs when wrapped in an RA (assuming 50% in bonds, yielding 10% per annum, taxable at 40%).

## ● Other tax advantages

- RA contributions are tax deductible at your marginal rate, which could be as high as 40%. Remember, it's only a percentage of your non-retirement funding income that is tax deductible.
- In return, the retirement income from an RA is taxable at your marginal rate, but at least your tax is deferred.
- More importantly, any retirement lump sum from an RA is now taxed at rates lower than 40% (0% on the first R300 000; 18% on the next R300 000; 27% on the next R300 000; and 36% on the rest).

## ● RAs lock you in until age 55

- UTs are generally free from any lock-in - you can withdraw from your UT whenever you want.
- RAs keep you locked in till age 55 - you can't withdraw from your RA till you're 55.
- When you choose to retire, you have to withdraw at least two thirds from your RA as a retirement income.

## ● The flexibility to transfer your RA

- You are allowed to transfer your RA from provider to provider (this is now a right of all members).
- You are allowed to cash in the RA (subject to tax) if you emigrate officially.

## ● Dying before retirement

- UTs are included in your estate, which might be subject to estate duty, depending on the monetary value.
- RA benefits (income and lump sums) are excluded from your estate as long as they are paid directly to dependants or nominees.
- Your beneficiaries pay income tax on the RA benefits, given that the original contributions were tax deductible. However, the rates on lump sum death benefits are the same as on lump sum retirement benefits - lower than 40%.

Out of the Ordinary®

## ● A final word on costs

- Unit trust RAs are generally transparent. You are charged separately for asset management, administration and advice.
- Unit trust RAs can be just as cost efficient as investing in unit trusts without an RA wrapper, but you need to shop around.
- **Investec iSelect RA** offers you flat annual administration fees, which are reduced by fund refunds. Advice fees are also negotiable.

## ● Bottom line

- RAs are a compelling option, provided that your goal is retirement income, and you've got other cash for emergencies.
- Even if you already belong to a retirement fund, you can contribute a percentage of your non-retirement funding income.
- If you want these contributions to reduce your 2008/9 tax bill, then you need to invest before the end of February 2009.



## ● 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 will 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 will 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.

All information and opinions provided are of a general nature and are not intended to address the circumstances of any particular individual or entity. We are not acting and do not purport to act in any way as an adviser or in a fiduciary capacity. No one should act upon such information or opinion without appropriate professional advice after a thorough examination of a particular situation. We endeavour to provide accurate and timely information but we make no representation or warranty, express or implied, with respect to the correctness, accuracy or completeness of the information and opinions. We do not undertake to update, modify or amend the information on a frequent basis or to advise any person if such information subsequently becomes inaccurate. Any representation or opinion is provided for information purposes only.

Investec Investment Management Services is an authorised financial services provider.

*Out of the Ordinary*<sup>®</sup>



**Investec**  
Asset Management