

Old Mutual Unit Trusts

Old Mutual Personal Living Annuity

JULY 2007



Old Mutual Personal Living Annuity is a unit trust-linked life annuity for providing retirement income. It enables you to diversify your retirement capital across Old Mutual's range of unit trusts. This annuity also offers the benefit of allowing you to choose your level of income (between 2.5% and 17.5% of your portfolio value). This is a superb benefit if you want a high income over a shorter period or if, for tax purposes, you want to lower your taxable income.

Please note: Old Mutual Personal Living Annuity is a **member-owned annuity**. These are annuities owned by individuals and they do not form part of a pension fund. Member-owned annuities may only be purchased where the rules of the (transferring) retirement fund specifically allow for such an annuity. The benefits of a member-owned annuity are that your investment is not impacted by the cross-subsidisation of other members, nor does it form part of your estate when you die (read more under "Nominating a Beneficiary"). In a fund-owned annuity, the trustees of the fund are responsible for the allocation of benefits, based on section 37C of the Pension Funds Act.

Managing your Portfolio

This living annuity gives you the flexibility to choose where you want to invest your money. Old Mutual has a wide range of unit trusts – investing across local and global shares, bonds and cash. Your income requirements, risk tolerance and time frames will determine your choice of fund/s. Speak to your broker or Old Mutual Personal Financial Adviser for assistance in selecting suitable funds.

If over time your investment needs or market outlook changes you can switch all or part of your portfolio to another of Old Mutual's unit trusts without incurring any charges. For example, if you do not currently need to draw a high income from this annuity you could consider more growth-focused funds. Once you require a higher income, a capital preservation/income-focused fund may be more appropriate.

Annuitants and intermediaries can view and manage this annuity in a secure online environment. To register for this facility go to www.oldmutualunittrusts.co.za. Intermediaries do require their clients' written permission to transact on their behalf.

Investment Minimums and Details

- Investment Minimum: R50 000
- Investments can also be transferred from approved pension/provident funds on a tax-neutral basis (i.e. without incurring tax). Benefits transferred from a pension fund are subject to prudential investment guidelines that require at least 25% of

the investment to be held in interest-bearing instruments. The remainder can be invested in equities (shares). You can structure your own portfolio by selecting an appropriate range of funds (subject to these restrictions), or invest in the prudentially compliant Old Mutual Balanced Fund.

Selecting an Income

Old Mutual Personal Living Annuity allows you to set your own income levels, which can be amended annually. You can draw an annual income of between 2.5% and 17.5% of your investment value. It is important that you give careful consideration to the level of income you select. If your income is higher than the annual growth of your investment, you could erode your capital base.

In the light of the current economic environment, it is prudent to consider the following guidelines when deciding on your annual annuity income:

- Under age 70: Maximum 12% p.a.**
- Between 70 and 80: Maximum 15% p.a.**
- Over age 80/ill health: Maximum 17.5% p.a.** (If you are suffering from ill health or some other impairment that will significantly reduce your life expectancy.)

Note:

- You can receive your income on a monthly, quarterly, half-yearly or an annual basis.
- Legislation requires that you receive at least one income payment a year.
- Amendments to your income levels/payment frequency can be made annually on your investment anniversary date.

Nominating a Beneficiary

You can select a beneficiary/beneficiaries on this investment. On death, the remaining investment accrues to the deceased member's beneficiaries. The nominated beneficiary/beneficiaries can elect to either:

- continue the annuity, or
- have the balance of the investment (including capital growth and income) paid out over a minimum of five years.

Should the value of the annuity fall below a certain amount (currently R25 500), the South African Revenue Service (SARS) allows for the full amount to be paid out to the beneficiary.

Failure to nominate a beneficiary will result in your estate receiving the remaining capital, where it will be subject to estate duty at the applicable rate (based on the size of the estate).

What does it mean?

Retirement annuity: A contract providing for the payment of a regular pension after retirement. It incorporates valuable tax saving benefits as pension contributions are tax deductible.

Living annuity: A living annuity is a market-linked product that does not offer any income guarantees and its value will fluctuate in line with the performance of the underlying investments you have selected. It gives the client the ability to select the rate at which the retirement capital is withdrawn. Any retirement capital remaining after the death of the client will remain in the estate (assuming no beneficiaries are documented in the application form/contract).

Life annuity: A life annuity is a retirement income-generating product that pays a guaranteed income for life.

Tax Considerations

- The income is taxed at your marginal rate of tax, while any capital appreciation in the value of your units is currently free of capital gains tax.
- Any lump sum benefit payable on your death, or within six months thereafter, will be taxed at your average rate of tax.
- This investment does not form part of your estate and thus incurs no estate duty, unless a beneficiary is not nominated (see overleaf).

Charges

The charges outlined in Old Mutual's Illustrator are the full expenses that will be charged to this policy. These charges are used by Old Mutual to cover all management and administration costs as well as the commission payable to the intermediary. They consist of:

(a) Charges against the policy:

- An initial charge is deducted prior to the purchase of units. This is charged as a percentage of the investment amount and may include commission payable to the intermediary. These charges are VAT inclusive:

	Administration	Commission
< R100 000	1.71%	1.71%
≥ R100 000	0%	1.71%

- Reinvested distributions of less than R100 000 will incur an initial charge of 1.71%, deducted prior to the purchase of units.

(b) Charges against the underlying funds:

- An annual service fee (from 0.57% to 2% based on the fund/s selected) is calculated on the market value of a fund's assets (excluding income and permissible deductions). It is deducted daily from each underlying fund's portfolio. This fee may include commission payments.
- Further fees that may be deducted from the fund's portfolio are compulsory and bank charges, brokerage, marketable securities tax, other taxes and levies, custodian and trustee fees, and audit fees.

These fees are jointly reflected in the Total Expense Ratio of a fund, disclosing the *historical* fees paid over a one-year period.

(c) Charges against annuity payments:

- An annuity payment fee is deducted from after-tax annuity payments. It is dependent on payment frequency:
 - ◆ R9 per month ◆ R15 per quarter ◆ R24 per half-year ◆ R42 per annum.
- If agreed upon by you and your intermediary, an annual adviser fee may be deducted from your annuity payments. It is maximum 1% p.a. (excluding VAT) of your annuity's market value on its anniversary date (excluding investments in the

International Growth Fund of Funds and all Four Plus funds).

A schedule of all charges, fees and commission is available from Old Mutual Unit Trusts.

Investment Risk

All risks associated with this investment are carried in full by you, the annuitant. It is vital that you understand these risks in light of your retirement income needs:

- Unit trusts are generally medium to long term investments. It is important that you are prepared for some shorter term fluctuations as your investment moves in line with the markets. In addition, fluctuations in exchange rates may cause the value of underlying international investments to go up or down. It is therefore important to note that past performance is not an indication of future growth.
- Old Mutual Personal Living Annuity is impacted by the investment returns of the selected unit trust funds and by the level of income drawn. The flexible income option introduces the risk that you could draw an income in excess of the growth of the investment. This would reduce the ability of the product to provide you with a sustainable flow of income over your lifetime.
- The annuity has no guarantees and we thus recommend that it should not be your sole source of retirement income.

Important Notes

- Interest and dividends are automatically reinvested. Historical income distributions are available on the individual fund fact sheets or on our website.
- This is a living annuity policy, which prohibits the cancellation or pledging of the policy and makes it unlawful to cancel the contract in terms of a cooling-off period. If you cancel an existing policy to take out a new one, it is important that you understand the potential detrimental consequences it may have on your financial planning. Your adviser will discuss this with you.
- Ownership of the annuity's underlying assets vest in the assurer and not the annuitant.
- Old Mutual reserves the right to amend the member's benefit in the event of a change in taxation basis or rate.
- No additional withdrawals, other than the regular income withdrawals, are allowed.
- Old Mutual Personal Living Annuity may, at any stage, be converted into a conventional life annuity, administered by the same assurer or another assurer. A conversion is based on the market value of the units as at the date of conversion, and subject to ruling legislation at the time.