RETIREMENT ANNUITY

WHAT IS A RETIREMENT ANNUITY?

A retirement annuity is an investment with flexible contributions to accumulate tax-free growth for retirement savings. Your savings from your pension and/or provident fund can be transferred to a retirement annuity in the event of dismissal, retrenchment or resignation. By doing this, you preserve your savings and benefit from a tax advantage. Additional contributions can be made, so your investment grows through the contributions and net investment returns.

WHY SHOULD I CONTRIBUTE?

The main objective of a retirement annuity is to build enough wealth to sustain your income and lifestyle during your retirement years. The state offers a tax incentive to encourage this type of saving. Your contributions to a retirement annuity are tax deductible, by 27.5% of your gross remuneration or net income (whichever is higher) subject to an annual limit of R350 000. Any contributions that are not deductible in this tax year can be rolled over to the following tax year. There is no tax on the returns earned within the retirement annuity.

WHAT IF I NEED MONEY?

You can withdraw at least R2 000 from your savings component once per tax year (from 1 March to the end of February). Thereafter, you must wait until the next tax year to withdraw again. However, if you leave the fund during the tax year and have less than R2 000 remaining, you can withdraw the entire balance.

From the age of 55 onwards you are able to retire from the fund.

1. Savings Component
   You can withdraw the entire amount as cash, this will be subject to tax according to the South African Revenue Service (SARS) retirement fund lump sum tax table.

   You do have the option to transfer all or part of this amount tax-free to a retirement income product, such as a living annuity or a guaranteed life annuity, however any income you receive from the annuity will be taxed at your marginal tax rate.
2. Retirement Component
   You must transfer the entire value of your retirement component to a retirement income product at the time of retirement, unless the total amount from all your retirement accounts in the relevant fund is R165 000 or less, you do not have to transfer it to a retirement income product.
3. Vested Component
   You can withdraw up to one-third of the vested component as cash, the remaining two-thirds must be used to purchase a retirement income product. Withdrawals from the vested component are taxed according to the pre-two-pot regime, which means they will be taxed based on SARS's retirement fund lump sum tax table.

WHAT HAPPENS TO THE MONEY WHEN I DIE?	Retirement funds are governed by the Pension Funds Act, so the benefit will be allocated by the trustees of the fund. The trustees consider all dependants, as well as nominated beneficiaries. If there are no financial dependants and no nominees, the fund value will be paid into your estate and be distributed according to your will. This fund value will be taxed as if you have retired prior to your death.
WHAT OPTIONS DO MY DEPENDANTS HAVE?	Trustees determine who should receive the benefit based on the following: • The financial position of the dependant/nominee • Age of the dependant/nominee • Other sources of income and financial support available • Potential income and ability to earn income • The relationship of the person to you • How much money is needed • Value of the death benefit • Your written wishes (Beneficiary Nomination form) The nominees and/or dependants can either: • Transfer the benefit to a compulsory living or life annuity • Take a cash lump sum (subject to tax) • Take a combination of cash lump sum (subject to tax) and compulsory living and life annuity.
WHY DID WE RECOMMEND THE RETIREMENT ANNUITY?	In putting together this recommendation, we have considered various other investment vehicles such as a unit trust (linked investment), an endowment and a tax-free savings account. Considering that these funds are earmarked for retirement, we have recommended the retirement annuity investment, as you will benefit from the tax deduction it provides, while also benefiting from tax-free growth. While you have access to the savings competent of the Retirement Annuity it is advisable to avoid making withdrawals unless absolutely necessary, as it is usually in your long-term best interest to keep the funds in your retirement savings. A retirement annuity can also be used for tax efficiency in a well drafted estate plan, chat to your financial planner to find out more.

* As with any investment, there are terms and conditions. Speak to your financial planner for more information on the investment vehicle and to fully understand its benefits, features and risks.