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RETIREMENT FUNDS

What is a Retirement Annuity?

A retirement annuity (RA) is a retirement fund in terms of the Pension Funds Act.

It is a tax effective investment vehicle designed for individual investors (as opposed to employees who contribute to a workplace retirement fund). A retirement annuity is ideal for people who

- are self-employed;

- don't have access to a work-place pension or provident fund through their employer;

- want to supplement their pension or provident fund savings

- earn significant amounts of non-*pensionable income* (eg interest and rental income)

You can join as many RAs as you wish, but the tax relief is determined in aggregate, not in respect of each individual fund. Your employer may contribute to an RA fund on your behalf. They can deduct unlimited contributions but those contributions will be taxed as a fringe benefit in your hands.

You can only retire from your RA from age 55 onwards (the one exception is early retirement due to ill-health). You can however withdraw before age 55, either on emigration, if you have gone through the formal financial emigration process with SARB and SARS, or if the paid-up RA value is less than R7,000. Withdrawals are subject to withdrawal lump sum tax.

You can also make your RA 'paid-up'. This means you no longer pay monthly contributions; however you will stay invested until you retire (from age 55 onward).

At retirement, you may take up to one third as a cash lump sum (subject to retirement lump sum tax (see table below); at least two-thirds must go towards a compulsory annuity.

Compulsory annuitisation applies to fund balances above R247,500.

If you own multiple RAs in one RA fund, then the annuitisation requirement considers the aggregate value of your RAs.

If you have multiple RAs in different RA funds, then the annuitisation requirement is applied to each RA individually.