

RETIREMENT ANNUITIES (RAs) VERSUS TAX-FREE INVESTMENTS (TFIs)

HOW DO THEY COMPARE?

RAs and TFIs both enable you to invest in a tax-efficient manner, giving you the opportunity to maximise your savings and improve your long-term outcomes. To make an informed choice about how to include these in your investment portfolio and your retirement planning, it's important to understand their different features and tax benefits.

IN A NUTSHELL

How do RAs and TFIs differ?

RA



Purpose

An RA is specifically designed for retirement planning, which is why you generally can't access your money before age 55.



Key features and taxes

- With an RA you pay less income tax now, because your contributions (up to certain limits) can be claimed as an income tax deduction.
- When you access your money, lump sums up to certain limits are tax-free, but after that you must pay tax.
- Access to your money and investment choice is restricted.

TFI



Purpose

A TFI is a low-cost, flexible tool to supplement your long-term savings, including your retirement savings.



Key features and taxes

- There are yearly and lifetime limits to how much you can contribute.
- With TFIs you don't pay any tax, unless you contribute more than the allowed limits.
- You can access your money within 48 hours – no restrictions or penalties.
- You have access to more investment options.

What's the same?

All income and growth you earn while you are invested in both RAs and TFIs are tax-free.



How to decide

To make an informed choice about where to invest or how to combine these, ask these key questions:

- 1 Do you need to supplement your existing retirement savings?
- 2 What's your income tax bracket?
- 3 How important is it to you to have access to your savings?
- 4 Do you want to invest in more high-risk, high-growth assets?



BASIC FEATURES AND LIMITS

	RA	TFI
Contribution limits	<p>No limits However, contributions are tax-deductible only up to a certain limit.</p>	<p>Restricted</p> <ul style="list-style-type: none"> • R36 000 per year • R500 000 over your lifetime
Access to your money	<p>Restricted</p> <p>Before age 55 Full withdrawal only if:</p> <ul style="list-style-type: none"> • the fund value is less than R15 000; and/or • you can prove permanent disability or ill health for early retirement (subject to the rules of the fund). <p>From age 55 (retirement)</p> <ul style="list-style-type: none"> • You can take a maximum of one-third of the fund value in cash. • The remaining two-thirds must be used to buy a compulsory annuity. • You can make a full withdrawal only if the fund value is equal or less than R247 500. <p>At any time You can make a full withdrawal at any time if you have emigrated and:</p> <ul style="list-style-type: none"> • have tax clearance approval from the South African Revenue Service (SARS); and • can prove that you have been a tax non-resident for an uninterrupted period of three years. 	<p>Anytime access</p> <p>You can access your money at any time.</p> <p>However, you can't replace any withdrawals you have made in terms of the contribution limits shown above.</p> <div style="border: 1px solid #ccc; padding: 5px; margin-top: 10px;"> <p> For example, if you have already contributed R36 000 in one tax year and you withdraw R6 000, you cannot contribute another R6 000 in the same tax year. If you do, you will be penalised with 40% income tax.</p> </div>
Investment restrictions	<p>Restricted</p> <p>An RA must comply with pension fund investment limits (Regulation 28 of the Pension Fund Act), which serves to protect investors from poorly diversified portfolios. This means there are limits to how much can be invested in certain asset classes and geographies.</p> <div style="border: 1px solid #ccc; padding: 5px; margin-top: 10px;"> <p> For example, RAs can invest a maximum of 75% in equities and 30% in international assets.</p> </div>	<p>Limited restrictions</p> <p>While a TFI does not have to comply to Regulation 28, some restrictions do apply. However, these are less restrictive than the restrictions of RAs.</p> <div style="border: 1px solid #ccc; padding: 5px; margin-top: 10px;"> <p> For example, exposure to shares from a single company is limited for a TFI.</p> </div>
Option to invest in a minor's name	<p>Yes</p> <p>But no access to the money before age 55.</p>	<p>Yes</p> <ul style="list-style-type: none"> • Parents have signing rights. • The minor must have a bank account by the time of withdrawal, so it's important to consider the age of the minor in context of when they would need access to the money.
Protection from creditors	<p>Yes</p>	<p>No</p>
What happens when you die	<p>Transfer to beneficiaries</p> <ul style="list-style-type: none"> • You can nominate a beneficiary(ies) to receive the proceeds from your RA. • However, it is not guaranteed that they will receive the payout – the trustees of the RA have a duty to identify all your dependants and to distribute the benefit according to those who are financially dependent on you. 	<p>No beneficiaries</p> <ul style="list-style-type: none"> • If you are directly invested in a unit trust TFI, it will form part of your estate. • You cannot nominate a beneficiary(ies) unless the investment is held in an endowment policy.



TAX BENEFITS AND IMPLICATIONS

	RA	TFI
When you invest (contributions)		
Tax deductions on contributions	<ul style="list-style-type: none"> • Tax deduction of up to 27,5% of your total taxable income during a tax year, capped at R350 000. • Any excess may be carried over the next tax year. 	No deductions.
While you are invested		
Tax penalties	None	Tax penalties of 40% on contributions that exceed the R36 000 per year and R500 000 per lifetime contribution limit.
Tax on interest and dividends	None	None
Tax on capital gains	None	None
When you access your money		
Tax on lump sum (in the case of an RA – at retirement)	<ul style="list-style-type: none"> • The first R500 000 is tax-free if you didn't make any previous withdrawals. • The balance is taxed according to the retirement tax tables – up to 36%. 	None
Tax on annuity income	Taxed according to your marginal income tax rate.	None
Estate duty	<ul style="list-style-type: none"> • No estate duty on tax-deductible contributions – excess contributions will be subject to estate duty. • There are no executor fees. 	Subject to estate duty. However, take note of the following: <ul style="list-style-type: none"> • If you bequeath your TFI to your spouse, estate duty deductions will apply. • If the investment is held in an endowment policy and there is a nominated beneficiary, no executor's fees apply.