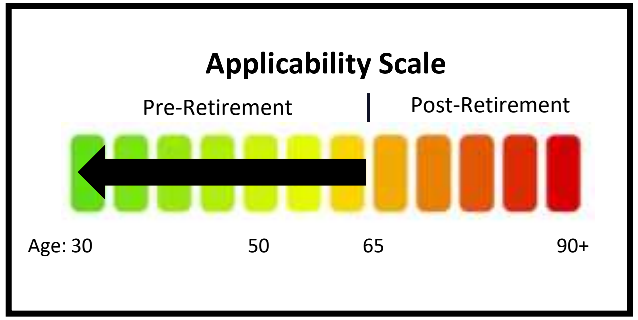

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TOPIC: South African - Retirement Annuities

Basic Retirement Annuity Information

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Definition

- A Retirement Annuity (RA) is a retirement fund established in terms of the pension fund act. It is an investment platform, with some tax benefits, that allows individuals to save for their retirement. It is different from a company pension or provident fund due to the fact that RA's are usually setup by individuals not companies. It is suitable for individuals who are pre-retirement age.

Basic Facts

- Contributions towards a Retirement Annuity can be made as lump-sums or as monthly recurring payments.
- All contributions towards RA's can be invested for growth but must comply with Regulation 28 of the Pension Fund Act (effectively a maximum of up to 30% of the underlying investments can be invested offshore).
- Whilst funds are invested within the RA, no tax is paid.
- An individual with a Retirement Annuity (RA) can contribute a maximum of 27,5% of their annual salary towards an RA up to a maximum of R350k per annum (Salary = R1,272,000.00 p.a.)
- Individuals who contribute more than R350k p.a. can do so and will not be penalized, this in fact benefits the individual from a tax standpoint when it comes to actually withdrawing funds at retirement.
- All contributions towards an RA are tax deductible in the year the contributions are made.
- Access to RA funds can only happen when the individual turns 55 or if the individual decides to financially immigrate (leaves the country) or become very ill.

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RA's and Retirement

- When you decide to retire (anytime after the age of 55) you have an option to take up to a third of the RA value at that point in time in cash (or not).
- When taking a third in cash at retirement, the first R500k you withdraw from your RA is tax exempt, after this, tax is paid according to the following table:

Taxable income from lump sum benefits	Rates of tax
1 – 500 000	0% of taxable income
500 001 - 700 000	18% of taxable income above 500 000
700 001 – 1 050 000	36 000 + 27% of taxable income above 700 000
1 050 001 and above	130 500 + 36% of taxable income above 1 050 000

Example

X received a lump sum of R682 000 from the ABC Pension Fund, and had received no previous lumps sums prior to this. Over many years, the total contributions which did not previously rank for deduction or qualify for exemption in X's hands amounted to R50 000. Calculate the normal tax payable on this lump sum.

Result

The gross lump sum on which normal tax will be calculated amounts to R682 000 less R50 000, which equals R632 000. R632 000 falls within the taxable income bracket of R500 001 to R700 000. The normal tax is therefore 18% of the taxable income above R500 000. Thus:

Normal Tax
= 18% of (R632 000 - R500 000)
= 18% of R132 000
= R23 760

The normal tax on the lump sum of R682 000 therefore amounts to R23 760, and the net lump sum after tax ("cash in pocket") would equal R658 240.

Source: https://www.sars.gov.za/ClientSegments/Individuals/Tax-Stages/Pages/Tax-and-Retirement.aspx

- The remaining funds in your RA, after taking whatever portion you decide to in cash, MUST be used to purchase either a Living of Life Annuity product.

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Some of the basic Pros and Cons of contributing to a RA on a regular basis can be summarized below:

PROS

- Ability to lower your annual tax payable per year by the amount you contributed to your RA
- No tax on investment growth whilst your RA grows.
- Forces you to save for retirement.

CONS

- Can only get access to funds at age 55
- When you get access to your funds, you can only access a third of the RA value and then must pay tax on the amount you withdraw above R500k.
- Limited to Regulation 28 compliant investments i.e. limited to having 30% offshore exposure.
- Tax is still paid on annuity income in retirement
- You never have full access to the money you've saved, unless in very specific circumstances e.g. financially immigrate

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CONTACT DETAILS

Website: www.gapmaynard.com
Email: info@gapmaynard.com
Tel: +27 72 157 1234

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