



# The Ultimate Guide:

## Retirement Annuities (RAs) in South Africa

Welcome to the Ultimate Guide to Retirement Annuities in South Africa, your comprehensive resource for navigating the ever-evolving landscape of retirement planning. In this guide, we will not just explain exactly how Retirement Annuities work but also provide actionable insights to help you make informed decisions when it comes to choosing the right one for you.

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Whether you're a seasoned investor, a young professional just starting your career, or simply seeking to optimize your existing retirement plan, this guide will equip you with the knowledge and tools necessary to secure a prosperous and worry-free retirement.

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# Understanding Retirement Annuities

## What is a retirement Annuity (RA)?:

A Retirement Annuity (RA) is a long-term investment vehicle designed to help individuals save for retirement in a tax-efficient manner. It is especially suitable for:

- self-employed individuals
- individuals without access to an employer-sponsored pension or provident fund
- individuals seeking to supplement their pension or provident fund savings
- individuals with substantial non-pensionable income such as rental or interest income.

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## Key features and benefits of RAs:

### Contributions:

Retirement annuities are governed by the Pension Funds Act, and they are available to all South African citizens and residents who want to save for retirement in a tax-efficient way. Unlike pension and provident funds, retirement annuities are not linked to your employer or employment status. This means that people who already have a pension or provident fund can still use a retirement annuity to save even more, while those who don't have any other retirement benefits can use a retirement annuity as their main way of saving for retirement.

### Legal limits:

It's important to remember that there are limits on how much risk retirement annuities can take and the investments in an RA must comply with Regulation 28 of the Pension Fund Act.

### Tax advantages:

Contributions to an RA are tax-deductible, up to certain limits. The maximum tax-deductible amount is 27.5% of your taxable income or remuneration, capped at ZAR 350,000 per year. Additionally, the growth of the investment within the RA is not subject to income, capital gains, or dividend taxes.

### Access to funds:

Typically, funds in a retirement annuity (RA) can only be accessed by investors who are 55 years old or older, without any upper age limit for retirement. However, there are specific circumstances, such as disability or emigration, where you may be able to access your funds earlier.

### Retiring:

You have the option to take out up to one-third of your retirement annuity (RA) as a lump sum. If your RA value is less than R247,500, you may take the entire amount as a lump sum. The first R500,000 of the lump sum is tax-free, while any amount exceeding that is subject to incremental tax rates. It's important to keep these tax rates in mind when deciding how much of your RA to withdraw as a lump sum. The remaining two-thirds must be used to purchase an annuity income for your retirement.

### Death benefits:

In the event of the investor's death, the RA proceeds can be passed on to beneficiaries, either as a lump sum or through the purchase of a continuing annuity. The death benefits are generally exempt from estate duty.

### Creditor protection:

In most cases, the funds within an RA are protected from creditors, providing an additional layer of financial security.

### Providers:

RAs are offered by various financial institutions, including insurance companies, banks, and asset management firms. It's essential to compare fees, investment options, and performance when selecting a provider.

### Pro Tip:

When you retire from your RA you are required to use 2/3 of your accumulated capital to purchase an annuity. That can be a Living annuity, Life annuity or a combination of the two. Here is a guide to all three.

# Choosing the right Retirement Annuity

## Assessing your risk appetite and financial goals:

Assessing your risk appetite and financial goals is an essential step in creating a well-rounded investment strategy. Your risk appetite refers to the level of risk you are willing to accept in pursuit of your financial objectives, while financial goals represent the specific targets you aim to achieve. This article outlines some steps to help you assess your risk appetite and financial goals.

### Pro Tip:

While RAs are particularly beneficial for self-employed individuals who do not have access to an employer-sponsored retirement plan, they are also suitable for salaried employees who wish to supplement their retirement savings.

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## Comparing different RA providers and investment options:

### Investment options:

Different providers offer different investment portfolios and asset classes. Evaluate the range of investment options, ensuring they align with your risk appetite and financial objectives. Look for a provider with a well-diversified offering that can cater to your specific needs.

### Investment performance:

Research the historical performance of the provider's investment portfolios. Although past performance is not a guarantee of future results, it can give you an idea of the provider's track record and expertise in managing assets.

### Fees and charges:

Compare the fee structures of different RA providers, as fees can significantly impact your investment returns over time. Common fees include administration fees, investment management fees, platform fees and financial advisor fees. Look for a provider with a transparent and competitive fee structure.

### Reputation and stability:

Assess the reputation and financial stability of the RA providers you are considering. Established and well-regarded providers are likely to offer better security and expertise in managing your investments.

### Customer service and support:

Good customer service is crucial when dealing with your retirement savings. Evaluate the provider's responsiveness, communication channels, and the quality of the support they offer. Check online reviews and testimonials to gauge customer satisfaction.

### Flexibility:

Assess the flexibility offered by the RA provider, such as the ability to change your contribution amounts, make additional lump-sum contributions, or switch between investment portfolios.

### Regulation and compliance:

Ensure that the RA provider is regulated by the relevant authorities, such as the Financial Sector Conduct Authority (FSCA) in South Africa. This ensures that the provider adheres to industry standards and offers protection for your investment.

### Online access and tools:

Evaluate the provider's online platform and tools, such as account access, performance tracking, and educational resources. A user-friendly and informative platform can help you stay informed and make better investment decisions.

Remember, it's essential to research and compare multiple RA providers before deciding. Consider consulting a professional financial advisor to help you assess your options and choose the best provider for your needs and objectives.

### Pro Tip:

Some investors underestimate the impact of inflation on their retirement savings. When planning your RA contributions and investment strategy, consider the potential impact of inflation on your future purchasing power to ensure that your retirement savings will be sufficient to maintain your desired lifestyle.

## Evaluating fees and charges associated with RA's:

Evaluating fees and charges in a Retirement Annuity (RA) is essential because they can significantly impact your investment returns over time. High fees can erode your savings and reduce the amount available to you upon retirement. Here are some common fees and charges to consider when evaluating an RA:

### Administration fees:

These fees cover the cost of managing your RA account, including record-keeping, correspondence, and regulatory reporting. Administration fees can be charged as a fixed amount or a percentage of your account balance.

### Investment management fees:

These fees are charged by the asset manager for managing the underlying investments in your RA. Investment management fees are typically a percentage of your assets under management and can vary depending on the investment strategy, asset classes, and the provider's expertise.

### Financial advisor fees:

If you work with a financial advisor to help you choose and manage your RA, they may charge fees for their services. Make sure to understand the fee structure of your financial advisor and whether they have any conflicts of interest.

### Platform fees:

Some RA providers may charge a platform fee for using their online investment platform or administration services. This fee can be a fixed amount or a percentage of your account balance.

### Switching fees:

If you change your investment options or move your RA from one provider to another, you may incur switching fees. Some providers don't charge any fees, some offer a limited number of free switches per year, while others charge for each switch. Sygnia does not charge any switch fees, for example.

## To evaluate fees and charges effectively:

- 1. Compare the total expense ratio (TER):**

The TER represents the total cost of managing and operating an RA. It includes administration fees, investment management fees, and other expenses. Comparing the TER of different RA providers can help you identify which providers offer the most cost-effective solutions.
- 2. Ask for a fee breakdown:**

Request a detailed breakdown of all fees and charges associated with an RA. This will help you understand what you are paying for and make it easier to compare different providers.
- 3. Assess the value for money:**

While fees are an important consideration, they should not be the sole deciding factor. Consider the investment options, historical performance, and customer service provided by the RA provider in conjunction with the fees.

Remember, it's essential to consider both fees and investment performance when evaluating a Retirement Annuity. A low-cost RA with poor investment performance may not be as beneficial as one with higher fees but better returns.

### Pro Tip:

While RAs are particularly beneficial for self-employed individuals who do not have access to an employer-sponsored retirement plan, they are also suitable for salaried employees who wish to supplement their retirement savings.



# Managing Your Retirement Annuity

## Regularly reviewing your RA investment strategy:

Regularly reviewing your Retirement Annuity (RA) investment strategy is essential to ensure that your retirement savings remain aligned with your financial goals, risk appetite, and personal circumstances.

### Changing financial goals:

Your financial goals may evolve over time due to various factors, such as changes in your income, expenses, or family dynamics. Regularly reviewing your RA investment strategy ensures that it remains aligned with your current goals and continues to support your long-term objectives.

### Risk appetite adjustments:

Your risk appetite may change as you get closer to retirement or experience significant life events, such as marriage, having children, or a job change. Reviewing your investment strategy allows you to adjust the risk level of your investments to better match your current risk tolerance.

### Investment performance:

Monitoring the performance of your RA investments helps you identify underperforming assets or funds that may require adjustments. By making necessary changes, you can ensure that your retirement savings continue to grow effectively and meet your financial goal

### Changes in market conditions:

Market conditions and economic factors can impact the performance of your investments. Regular reviews allow you to adjust your investment strategy in response to changing market conditions, helping you mitigate potential risks and capitalize on new opportunities.

### Legislative and tax changes:

Government regulations and tax laws may change over time, affecting your retirement savings and investment strategy. Regularly reviewing your RA investment strategy ensures that you stay compliant with the latest regulations and maximize available tax benefits.

### Life expectancy:

As life expectancy increases, your retirement savings may need to last longer than initially anticipated. Regularly reviewing your investment strategy helps ensure that your retirement savings are sufficient to maintain your desired lifestyle during retirement.



# Frequently asked questions

## What is a Retirement Annuity?

A Retirement Annuity is a long-term savings vehicle designed to help individuals save for their retirement. It allows you to invest in a diversified portfolio of assets and offers tax benefits, such as tax-deductible contributions and tax-free growth.

## Who should invest in an RA?

RAs are suitable for a wide range of individuals, including self-employed persons, salaried employees looking to supplement their retirement savings, and those who may not have access to an employer-sponsored pension or provident fund.

## How much can I contribute to my RA?

You can contribute any amount to your RA, but tax deductions are limited to 27.5% of your taxable income or remuneration, with an annual cap of ZAR 350,000.

## How are RAs taxed?

Contributions to an RA are tax-deductible, up to certain limits. The maximum tax-deductible amount is 27.5% of your taxable income or remuneration, capped at ZAR 350,000 per year. Additionally, the growth of the investment within the RA is not subject to income, capital gains, or dividend taxes.

## When can I access my RA funds?

You can typically access your RA funds when you reach the minimum retirement age of 55. However, there are specific circumstances, such as disability or emigration, where you may be able to access your funds earlier.

## How do I choose an RA provider?

When selecting an RA provider, consider factors such as the range of investment options, fees and charges, historical performance, and customer service. Comparing different providers and consulting a professional financial advisor can help you make an informed decision.

## Can I transfer my RA to another provider?

Yes, you can transfer your RA to another provider if you are not satisfied with your current provider or find a better investment option. However, be aware of any potential fees or charges associated with the transfer.

## How do I manage my RA investments?

Regularly review and adjust your RA investment strategy to ensure it remains aligned with your financial goals, risk appetite, and personal circumstances. Consider working with a professional financial advisor to help you manage your investments and make necessary adjustments.

## How do I withdraw from my RA upon retirement?

At retirement, at least two-thirds of your RA funds must be used to purchase a compulsory annuity, which provides regular income during your retirement. The remaining one-third can be taken as a cash lump sum.

## Can I have more than one RA?

Yes, you can have multiple RAs with different providers. This may be useful for diversifying your investments or taking advantage of different investment options and fee structures.

## What is Regulation 28 mean?

Regulation 28 (Reg 28) is a part of South Africa's Pension Funds Act that deals with how retirement funds, including Retirement Annuities (RAs), are invested. Its main goal is to keep investors' retirement savings safe by making sure their investments are spread out and carefully chosen. This way, they won't lose too much money if one type of investment doesn't do well.

For RAs, Reg 28 sets rules on how much money can be put into different types of investments, like equities, bonds, property, and cash. It also controls how much can be invested in foreign assets and how much can go to a single company or group. Here are the main rules set by Reg 28:

- Equity: Up to 75% of the RA can be in equities (also called shares).
- Property: Up to 25% of the RA can be in property (like real estate) or things related to property, such as Real Estate Investment Trusts (REITs).
- Investments outside of South Africa: Up to 30% of the RA can be in foreign assets, and an extra 10% can be invested in Africa (but not South Africa).

These rules make sure that investors have a mix of investments, which lowers the risk that comes with putting all their money into one type of investment or market. It's important for investors and those who manage RAs to follow these Reg 28 rules when choosing and managing their investments. If they don't, they might face penalties or other actions from the authorities. In short, Reg 28 is a key part of the rules for RAs in South Africa. It helps protect investors by encouraging them to spread out their investments and make careful choices. By understanding and following Reg 28, investors can lower the risk to their retirement savings and work towards a more financially secure future.

#### **Can I use a retirement annuity to invest offshore from South Africa?**

Yes, you can use a Retirement Annuity (RA) to invest in offshore assets from South Africa. See guidelines here.

#### **What is the new Two-Pot retirement system?**

Starting from 1 March 2024, Treasury has proposed plans designed to both safeguard your retirement savings and provide relief during difficult times. The new "two pot" retirement fund system provides an alternative to withdrawing your entire retirement savings when leaving a fund. Pension and provident fund members, as well as retirement annuity policyholders, can access up to one-third of their retirement savings before reaching retirement age without having to resign or change jobs.

However, it will be mandatory to preserve the majority of your retirement savings (the two-thirds in the main "pot"), allowing it to grow untouched and undisturbed. It's crucial to understand that this new system will only apply to your future savings starting from 1 March 2024, when the "two pot" system is introduced. This means your existing savings won't be included in the "two pot" arrangement.

In summary, the "two pot" system aims to achieve two primary objectives simultaneously. The larger "pot" safeguards your future retirement security, while the smaller one offers more flexibility and provides financial relief during times of significant financial stress. This article is an excellent explanation of the pro's and cons of the new system.

#### **Can I choose the underlying investments in a RA?**

Yes, you can choose the underlying investments in a Retirement Annuity (RA). When you invest in an RA, you typically have the option to select from a range of investment portfolios offered by your RA provider. These portfolios can include different asset classes, such as equities, bonds, property, and cash, as well as local and offshore investments.

The investment options available to you may vary depending on your RA provider, and the choices you make should align with your financial goals, risk appetite, and investment time horizon. It is essential to carefully consider the underlying investments in your RA, as they will ultimately determine the performance of your portfolio and your retirement savings.

If you are unsure about which investments to choose, consulting a professional financial advisor can help you make informed decisions based on your specific circumstances and financial goals. Keep in mind that your chosen investments must also comply with the guidelines set by Regulation 28, which aims to ensure prudent and diversified investment practices for retirement funds in South Africa.





“When I started contributing to my Sygnia RA, I finally felt like I was taking my retirement seriously. The fees are so low that more of my money actually works for me instead of disappearing into costs. It's one less thing to worry about.”

**Nontsikelelo Xego**  
Sygnia Employee Benefits Administrator

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**Sygnia**

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