February 2025

Ninety One

—
Investing for a world of change

Four reasons to invest in an RA

Leone Hitge
Investment Marketing Manager

At the close of a year, some of us may feel battle weary, but a brand-new year allows us to dream again and plan for a better future. During the first few months of a year, we are typically more motivated to replace our bad habits with good ones. The author of the book, "Atomic Habits", James Clear, advocates that people start small and make gradual improvements over time. This gives us more chance of succeeding than if we introduce massive changes all at once. As Clear explains: "Habits are the compound interest of self-improvement."

Building wealth so that you can retire comfortably starts with developing good financial habits like saving and investing. Maintaining good financial habits is easier when you avoid a 'big bang' approach and focus on what is achievable, making steady improvements over time.

Saving for retirement means you are building a nest egg from which you can draw an income when you are no longer working. A retirement typically spans 30 years or more; therefore, it's crucial that you start saving as soon as possible so that your nest egg has time to grow.

You may not necessarily need an income that matches your final salary at retirement (100% income replacement).[1] For example, you could be debt-free and not paying towards children's education. You won't be contributing to an employer retirement fund, nor will you have work-related expenses (e.g. clothing and travel costs). To generate an income replacement ratio of 75%, you will need to have accumulated retirement capital that is 15 times your final salary on retirement. For example, if your final salary at retirement is R500 000, you need to have built up retirement capital of R7.5 million.[2]

—

1. Retirement income expressed as a percentage of pre-retirement income.
2. This example is purely for illustrative purposes. It is based on an income replacement ratio of 75% and assumes that you will buy an income-producing annuity with your retirement capital, drawing a starting income of 5% of your retirement capital.

There is no magic income multiple that covers all investors saving towards their retirement. How much income you need when you are retired will be determined by factors such as your lifestyle and healthcare needs. You also need to ensure your nest egg will cover ad hoc expenses such as home renovations and upgrading your car at some stage. A financial advisor can help you plan for your retirement: setting retirement goals and devising investment strategies to achieve these milestones.

Retirement annuities (RAs) remain one of the best ways to save for your retirement. Here are four reasons why you should consider investing in an RA.

1 A personal retirement savings plan that you can grow over time

If you have your own business, do freelance work or you are a stay-at-home parent, an RA can be a great way to save towards your retirement. You can contribute as little as R500 a month via debit order and/or make lump sum investments.[3] You have the freedom to stop, start or make additional contributions to your RA. While there are no upper limits to how much you can contribute, there is a ceiling on how much you may be able to deduct for tax purposes each year (more about this later). Even if you belong to an employer's retirement fund, you can use an RA to supplement your current retirement fund savings. If you get into the financial habit of saving extra income that you receive, such as an annual bonus or rent from a property, by ploughing it into your RA, it could make all the difference between retiring comfortably or running out of money.

Investment platforms, such as Ninety One, offer a variety of unit trust funds that are suitable for investing in an RA. A financial advisor can guide you to select funds that match your risk profile and meet the regulatory requirements of retirement funds.

An RA helps you to stay disciplined about your savings as you have limited access to your retirement capital before the age of 55.[4] You can retire any time from age 55.

—

3. The Ninety One Investment Platform's minimum RA contribution is R500 a month, via debit order. Alternatively, the minimum initial lump sum is R100 000, with additions a minimum of R10 000.
4. See the Ninety One Retirement Annuity product guide on our website.

2 Contributions are tax-deductible and investment growth is tax-free

Investing in an RA can help you pay less tax as your contributions are tax-deductible within certain limits.[5]

The tax deduction is limited to the lesser of:

- R350 000
- 27.5% of your remuneration or taxable income (whichever is higher)
- Your taxable income before the inclusion of any taxable capital gain

For example, if you earned a salary of R400 000 over a tax year and you contributed R60 000 to an RA, you will only be taxed on R340 000 (R400 000 remuneration – R60 000 in RA contributions).[6] There are many different scenarios, so it's best to consult a financial advisor or tax specialist to find out how an RA could help you pay less tax.

There is also no income, capital gains or dividend withholding tax payable within your RA investment, helping your retirement savings grow faster.

3 Tax relief on retirement lump sum benefits

With the introduction of the two-pot system on 1 September 2024, you may access a small portion of your retirement savings before retirement, while the remainder will be preserved. The new system splits your money into a Savings component and a Retirement component. There is also a third 'bucket', for those RA investors who accumulated retirement savings up to 31 August 2024, known as a Vested component. You may only withdraw money from your Savings component once a year, while the rest of your retirement money will be preserved for your retirement.

When you retire from your RA, you may take a maximum of one-third from your Vested component (if applicable) as a cash lump sum. You may also choose to take all the funds available in your Savings component as a cash lump sum.[7]

—

5. If your retirement fund contributions are more than can be claimed from tax in a given year, the excess contributions are carried over to the next tax year and can be used to reduce your taxable income.
6. This example is for illustrative purposes only. It assumes the salary was the only income earned during the tax year and that there were only RA contributions (no other retirement fund contributions) nor other applicable deductions that would have an impact on taxable income. When calculating the maximum tax-deductible contribution, member and employer contributions to all retirement funds must be taken into account.
7. Visit our Two-pot hub for more information.

You could benefit from paying no tax on the first R550 000 of your capital that you take in cash, helping you preserve more of your retirement nest egg. The tax relief available to you will depend on whether you've previously received severance benefits, withdrawals or retirement lump sums, as the R550 000 is a lifetime limit.[8]
It applies across all retirement funds that you may have (e.g. RAs, employer retirement funds and preservation funds). Once you have reached this lifetime limit, additional retirement cash lump sums will be taxed according to the retirement tax table.

The remaining capital in your RA needs to be invested in a living annuity or a life annuity. Your annuity will provide an income for you when you're retired and will be taxed according to the PAYE tax tables.

4 Estate-planning benefits

You can contribute to an RA at any age and can choose to let your RA mature any time from age 55. But you don't have to retire from an RA, if you don't want to. The capital will continue to grow tax-free. On the death of an RA investor, benefits received by beneficiaries[9] as lump sums or annuities are exempt from estate duty. Beneficiaries receiving lump sums can also take advantage of tax-free amounts if a member had not done so during their lifetime.[10] Please note that RA contributions in excess of the maximum allowable tax deduction may result in estate duty being payable in certain instances.

Adopt good financial habits with the help of a financial advisor

As outlined above, an RA is a personal retirement savings plan that allows you to build a retirement nest egg in a tax-efficient way. How much you invest for your retirement and which solutions you choose will depend on your individual needs and circumstances, and what your existing investment portfolio looks like. A financial advisor can help you create long-term wealth so that you can retire comfortably. Our Women and Investing hub contains a wealth of information, including planning for retirement and the value of financial advice.

Don't have an advisor yet?

Visit our website to locate a professional, accredited financial advisor near you. We have a set of appropriately qualified and licensed advisors from across the country who can help you make informed investment decisions.

—

8. Tax relief on retirement lump sum benefits is allocated once in a lifetime; if it's used up you can't claim it again – www.sars.gov.za. Also see the Ninety One Retirement Annuity product guide on our website for more information.
9. In accordance with Section 37c of the Pension Funds Act.
10. The tax relief on RA lump sums that is available to beneficiaries will depend on whether the RA member previously received severance benefits, retirement fund withdrawals or retirement lump sums. There is a R550 000 lifetime limit that applies across all retirement funds (e.g. RAs, employer retirement funds and preservation funds). Also see the Ninety One Retirement Annuity product guide on our website for more information.

Important information

All information and opinions provided are of a general nature and are not intended to address the circumstances of any particular individual or entity. We are not acting and do not purport to act in any way as an advisor or in a fiduciary capacity. No one should act upon such information or opinion without appropriate professional advice after a thorough examination of a particular situation. We endeavour to provide accurate and timely information, but we make no representation or warranty, express or implied, with respect to the correctness, accuracy or completeness of the information and opinions. We do not undertake to update, modify or amend the information on a frequent basis or to advise any person if such information subsequently becomes inaccurate. Any representation or opinion is provided for information purposes only.

The investments referred to in this document are generally medium to long term investments. Their value may go down as well as up and past performance is not necessarily a guide to future performance. Fluctuations or movements in exchange rates may cause the value of the underlying international investments to go up or down. A schedule of fees and charges is available on request from Ninety One Investment Platform Proprietary Limited. A prospectus is available in respect of the underlying fund on request from Ninety One. Ninety One SA (Pty) Ltd and Ninety One Investment Platform (Pty) Ltd are authorised financial services providers.

Contact information

36 Hans Strijdom Avenue
Foreshore, Cape Town 8001
Telephone: +27 (0)21 901 1000

Client service support: 0860 500 100
Email: clientservice@ninetyone.com

Please contact our Advisor Service
Centre on telephone: 0860 444 487

Alternatively, please contact your Ninety One investment consultant.

www.ninetyone.com

0123-0088-Capability-IP-RA