Fin-Ed
Free Financial Education for Our Community

THE TRUTH ABOUT RETIREMENT ANNUITIES

FUNDS (RAF)

SEPARATING FACT FROM FICTION

Understand the facts so you can make informed decisions about **your future.**

BUSTING 5 COMMON MYTHS
so you can make informed decisions.

THE REAL BENEFITS
that can strengthen your retirement future.

THE REAL DRAWBACKS
you need to be aware of.

WHY RETIREMENT ANNUITIES STILL MATTER

- TAX DEDUCTIBLE CONTRIBUTIONS
- GROW YOUR WEALTH TAX EFFICIENTLY
- PROTECT YOUR RETIREMENT FUTURE
- DISCIPLINED LONG-TERM SAVINGS
- SECURE FINANCIAL FREEDOM
- BUILT FOR YOUR FUTURE, NOT TODAY

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The Truth About Retirement Annuities Funds (RAF)

Separating Fact from Fiction

Retirement Annuities (RAs) are often one of the most misunderstood investment products in South Africa. Some people believe they are the best investment available, while others claim they are restrictive, expensive, and should be avoided at all costs.

The reality is that neither view is entirely correct.

A Retirement Annuity is simply a tax-efficient investment vehicle designed to help individuals save for retirement. Like any financial product, it has advantages and disadvantages. Understanding both sides is essential before deciding whether an RAF forms part of your financial plan.

Myth 1: Retirement Annuities Are a Bad Investment

An RAF is not an investment in itself.

Think of an RAF as a container. Inside that container, you can invest in various unit trust funds, including equity funds, balanced funds, income funds, and offshore funds.

The performance of your RA depends largely on the underlying investments you select, not the RAF structure itself.

A well-managed RAF invested in suitable funds can produce excellent long-term returns. Conversely, a poorly invested RA can deliver disappointing results.

Myth 2: Retirement Annuities Lock Away All Your Money Forever

Historically, this criticism had some merit.

However, since the introduction of South Africa's Two-Pot Retirement System in September 2024, retirement savings have become more flexible. One-third of new retirement contributions are allocated to a Savings Component, which can be accessed once per tax year (subject to certain conditions and taxation), while the remaining two-thirds remain preserved for retirement.

This means that retirement savings are no longer completely inaccessible before retirement.

That said, the primary purpose of an RAF remains retirement planning. Any withdrawals before retirement should be carefully considered because they reduce the capital available to support you later in life.

Myth 3: Retirement Annuities Save You Tax

This statement is both true and false.

Retirement annuity contributions are generally tax deductible up to 27.5% of taxable income or remuneration, subject to annual limits. This can result in a substantial reduction in your current tax liability.

However, many investors incorrectly believe that this tax benefit means the money is tax-free forever.

The reality is that an RAF provides tax deferral rather than complete tax avoidance.

You receive tax relief when contributing, but retirement benefits may be taxed when withdrawn or received as income in retirement. The advantage is that many retirees pay tax at lower rates than they did during their working years.

Myth 4: Retirement Annuities Have Poor Returns

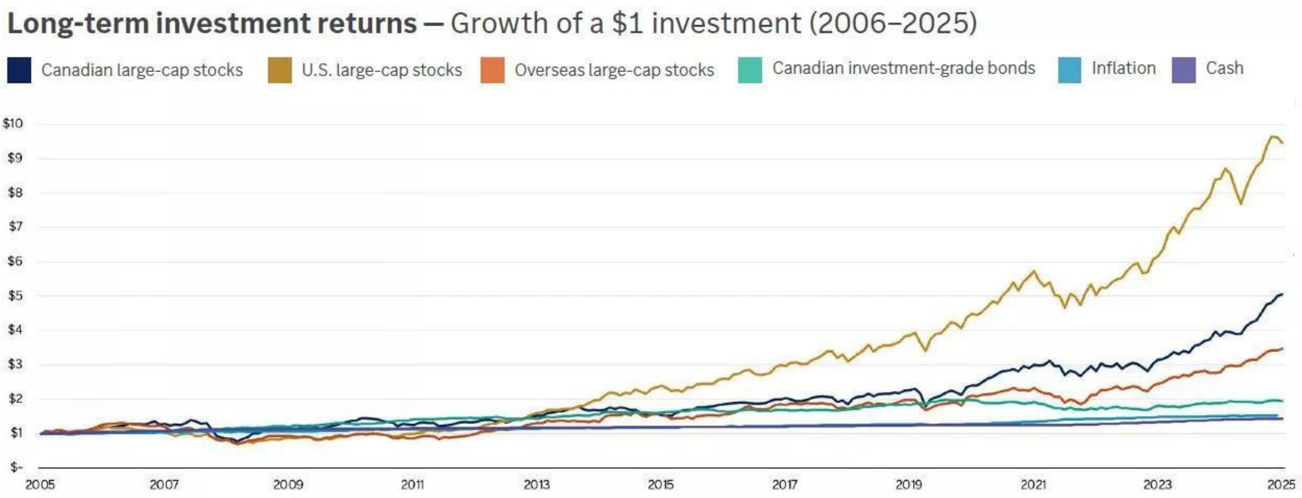
This is usually not a product problem but an investment selection problem.

Many investors compare their RAF to a high-growth equity portfolio and conclude that the RAF has underperformed.

However, retirement regulations require diversification and place limits on certain asset classes. While these rules may sometimes reduce short-term returns, they are intended to manage risk and protect retirement capital over the long term.

The question should not be, "Did my RAF beat the stock market this year?"

The better question is, "Will my retirement savings provide me with sufficient income for the rest of my life?"



Myth 5: Retirement Annuities Are Only for Older People

One of the greatest advantages of an RA is time.

A 30-year-old investor who contributes consistently over 35 years can benefit enormously from compound growth. Even modest monthly contributions can accumulate into significant retirement capital over time.

The earlier retirement planning begins, the less pressure there is later in life to make large catch-up contributions.

The Real Benefits of Retirement Annuities

When used correctly, retirement annuities offer several powerful advantages:

- Tax-deductible contributions.
- No tax on interest earned within the investment.
- No tax on dividends earned within the investment.
- No Capital Gains Tax while the investment remains inside the fund.
- Protection from creditors in many circumstances.
- Disciplined long-term saving.
- Estate planning benefits, as retirement funds generally fall outside a deceased estate for estate duty purposes.

These benefits can significantly improve long-term investment outcomes compared to many discretionary investments.

The Real Drawbacks

To present a balanced view, it is important to acknowledge the disadvantages:

- Limited access to funds before retirement.
- Retirement fund regulations restrict investment choices.
- Income tax may be payable on retirement income.
- Investors who require short-term access to capital may find other investment structures more suitable.

An RAF should therefore not be your only investment.

Most successful financial plans combine retirement annuities with discretionary investments, tax-free savings accounts, emergency funds, and other investment vehicles.

So, Should You Invest in a Retirement Annuity?

The answer depends on your personal circumstances.

For most working South Africans, a Retirement Annuity remains one of the most effective ways to save for retirement because of its tax advantages and long-term discipline.

However, an RAF should never be viewed in isolation. It should form part of a comprehensive financial plan that balances liquidity, tax efficiency, investment growth, and retirement income needs.

The truth about Retirement Annuities is simple:

They are neither a miracle solution nor a bad investment.

They are a powerful tool when used correctly and a poor solution when used incorrectly.

As with most financial decisions, success depends less on the product and more on the strategy behind it.

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