

KEEPING CLIENTS INFORMED

Retirement Annuities

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A Retirement Annuity is a savings vehicle for individuals looking for a flexible, tax-efficient way to save for retirement and, since the regulatory changes came into effect, should be integral to one's financial planning.



Rather than being simply a tool to reduce one's taxable income, RAs have become more flexible in the following ways:

- Since 1 January 2009, upon death, all RA payouts are free of estate duty
- Subsequent to all the regulatory changes on RAs, upon death, the full cash proceeds of the policy can be paid out to all dependants
- In terms of the Income Tax Act, any taxpayer contributions to an RA which did not "rank for deduction against the taxpayer's income", will pay out tax-free in addition to the R315 000 untaxed.

Scenario

A 64-year-old client, realising estate duty implications, decides to invest R3m into an RA for his family's benefit.

Solution

He invests the R3m in a single, premium RA. With this simple investment, he achieves the following benefits:

- The R3m has been removed from his estate, which means that it will be free of estate duty when it pays out. This may achieve a saving of up to R600 000, without taking growth of the investment into account. Upon death, dependants are able to draw the policy's full proceeds in cash, which means a fully liquid investment for dependants.
- Upon death, the policy proceeds will pay out directly to any dependants and will not be subject to the executor's fees (assuming no growth, and the normal executor's fee at 3.99%, this equates to a saving of R119 700).
- Although R3m paid into the RA would not have been tax deductible going into the RA, it would be tax-free on top of the R315 000 allowed.

Conclusion

No other investment portfolio can match the following RA benefits:

- The portfolio is fully liquid for the family.
- The portfolio is free of executor's fees.
- The portfolio is free of estate duty.

Therefore, subsequent to the regulatory changes coming into effect, RAs are an integral part of estate planning.

To create or increase your current RA, contact Gavin Wright, Director Moore Stephens Wealth Management, [BEFORE 24 FEBRUARY 2012](#)

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