



DAVEY'S Locker



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Retirement annuities

Increased tax relief but access constraints

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RAFs are long-term savings

The increased tax deductibility of contributions to a retirement annuity fund, effective as from 1 March 2016, to 27,5% of the greater of taxable income and remuneration, has incentivized saving for retirement. The trade-off is that an RAF member cannot access any benefits, except in very limited circumstances, the rationale being that the nature of this type of investment should be long-term.

Pre-retirement access

The reality is that, in an economic downturn, retrenchments are rife. Although such action ought not to be encouraged save in exceptional circumstances, members of a pension or provident fund can access a withdrawal benefit in whole or in part upon termination of service, since membership of a fund is related to employment.

RAF members cannot access any withdrawal benefits upon retrenchment or redundancy, since there is no employment relationship.

RAF limited access

Access to a retirement annuity is governed by the definition of 'retirement annuity fund', as read with the definition of 'normal retirement age', both contained in s 1(1) of the Income Tax Act. In

essence, no portion of an retirement annuity may be encashed before:

- Attainment of age 55.
- Permanent disability.
- Death.
- Formal emigration from the RSA.

Any cession (for example, as security) is prohibited.

Exceptions to limited access

An exception to limited access is permitted under s 37D(l)(d) of the Pension Funds Act, as read with s 7(8) of the Divorce Act. In essence, a divorce settlement can include an award to the ex-spouse of a member of a 'pension interest', including an interest in an RAF, in whole or in part.

A further exception permitted under the definition of 'retirement annuity fund' arises upon emigration from the RSA, provided it is recognized by the South African Reserve Bank.

Conclusion

The moral of the story is: Don't put all your investment eggs into one retirement annuity basket, but ensure you also have discretionary savings to cater for 'the slings and arrows of outrageous fortune'.

