

# FAQ – Should I cash in my Retirement Annuities?

## **A taxpayer writes:**

I am 60 and have just retired from the defence force. Thanks to good financial planning in the past, I am happy with my financial position and have no debts. I also have properties which earn me a monthly income.

However, I need some advice on my options when it comes to retirement annuities (RAs).

From April this year, I have R400 000 available from an RA. As I understand it, my option is to receive a third in cash and the rest as a monthly payment. I don't need the money currently, but am concerned that if I live a long time, my pension and other income will not be enough to sustain me.

Should I take the third in cash to invest somewhere else, or should I reinvest the whole amount for five years? My financial adviser struggles to understand my situation.

## **Nico Louis-Minnie, head of investments customer value at Liberty Life, responds:**

Many people get anxious when their RA matures. But the payout date is very flexible and most insurance companies will enable you to keep your savings in the RA.

Legislation has recently changed and there isn't a maximum retirement age any more. This means that you can leave your savings in your RA as long as you want, and that you could still contribute each month to the investment.

The benefit is obviously that contributions are tax free. In addition, all the costs on the investments will already have been discounted, which makes it a cheaper option in terms of fees – any new investment will involve new costs, including

commission and administration fees.

Your savings will also be immediately available if you need them – a third can be taken in cash, and the rest to secure a monthly income for the rest of your life.

It is also possible to use the full amount for a monthly income if the two-thirds are not enough.

The advantages therefore include tax-free growth and instant access to the investment.

It is easy to quantify the benefits. Your R400 000 can grow within five years to R561 000 at a conservative growth rate of 7% per year.

Liberty will pay you a monthly income of R3 400 in exchange for a premium of R400 000.

If we use the current annuity rates, you will earn as much as R5 200 per month when you reach 65.

This is an increase of 50% in your income – just by leaving the investment for another five years.

A financial adviser will give you good guidance on which investment portfolios to choose from, so that you can earn the expected return without unnecessary risk.