

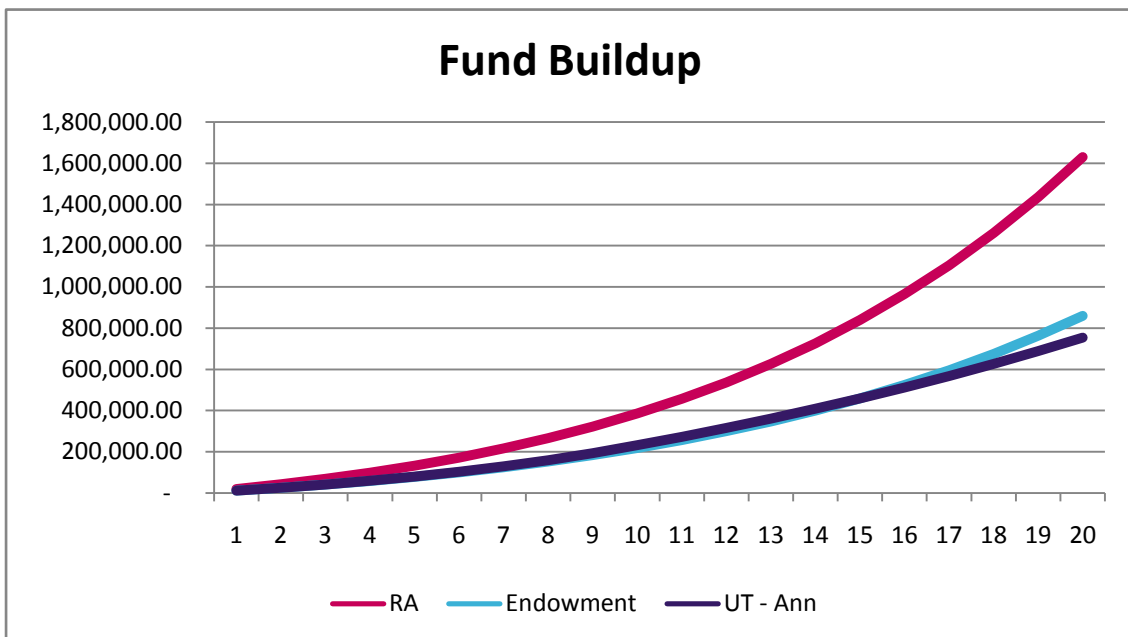
How the taxman can double your retirement savings

The tax savings on a retirement annuity policy (RA) can increase your retirement income by 60%, says **Johan Kleu**, head of Investment Products at Liberty Life.

If you invest in a retirement annuity policy with your pre-tax income, the Receiver of Revenue effectively pays up to 40% of your retirement funding. How?

1. There is **no tax on interest or capital gains** on your investment
2. When you convert the RA to an annuity, you will **not pay tax on growth within the annuity.**
3. Although you pay tax on the income you receive once you have retired, your **tax rate is normally significantly lower.** For example if you were paying a tax rate of 30% during your working years, at retirement you would most likely pay between 15% and 20%. The difference is your tax savings.

The graph below shows the benefits of saving for retirement using an RA. It shows the value of the same investment into an RA, endowment and unit trusts - the only difference is the tax on the investment.



Assumptions on the investments:

Premium paid:	R20 000 in the first year, before tax Premiums increase by 5% a year after that, in line with inflation
Investment growth rate:	10% a year
CPI (inflation):	5%
Marginal tax rate:	40%
Portion of capital gains that is taxable:	25% (capital gains are realised each year)

Income boosted at retirement

As your lump sum payment on retirement is significantly higher with an RA, your income at retirement is also boosted.

The graph below shows the initial income (the first year's income) that will be received from the different investment options given in the earlier example.

If all future payments after this point are considered, the retirement annuity outperforms the others by almost 3% a year. This is a substantial amount of money considering the number of years in which you would draw on the income.

A retirement annuity could give the investor between R30 000 and R40 000 a year more than other after-tax saving vehicles.

