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SEEK ADVICE. A financial advisor can help you figure out which product is right for your financial situation. Picture: Shutterstock

How to choose the right RA

SEVEN ATTRIBUTES: LOOK OUT FOR THESE WHEN CHOOSING AN INVESTMENT PLATFORM

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Stephen Katzenellenbogen

A Moneyweb reader asked:

I would like to save for retirement with a retirement annuity (RA) plan, but I do not know how to pick the correct one. Please advise on what to look out for when choosing which company to go with and the type of plan to choose.

Stephen Katzenellenbogen answers: One of the hardest parts of saving is the initial commitment; well done on taking the first step. It is unclear whether you are going to make a lump sum contribution or have a debit order.

There is no right or wrong answer here but my feeling is that for this type of investment a debit order provides a good foundation and you can then make ad hoc top-ups too if you are able to (both practically and within legislative tax-deductible contribution allowances).

Here's a retirement annuity 101 for any readers who are rusty on the basics:

Contributions are tax deductible; in order to qualify for the deduction, you can contribute up to the lesser of:

R350 000 per annum; or 27.5% of the greater of remuneration or taxable income; or taxable income excluding taxable capital gains.

Based on current legislation the growth within your RA is not subject to income tax, capital gains tax or dividend-withholding tax. On death, the investment is not subject to estate duty. However, if the beneficiary chooses to take a lump sum this would be subject to the retirement lump sum tax tables.

Investment choice is guided by Regulation 28 of the Pension Funds Act. For most people, the two important take-outs are that foreign exposure is limited to 30% of the portfolio and equity exposure to 70%.

Minimum retirement age is 55 (no maximum) where you can access up to one-third of your capital and the balance must be used to purchase an annuity.

I can't advise you on which product to go for because I don't know enough about your financial situation, but a financial advisor can help you figure this out.

When it comes to choosing your platform though, you should look out for the following attributes:

- There should be no penalty for decreasing or stopping your contributions.
- You should have the flexibility to increase, decrease or stop your contributions whenever and as often as you like.
- The platform should offer a broad range of funds to choose from across asset classes and asset managers with no cost for switching.
- Pricing must be fair. This applies to the platform, funds and, if applicable, the financial advisor.
- Efficient administration (example: if you have a query after 10 years, you want it answered quickly and accurately).

Easy access to help

Embraces technology so you can get your investment information when you want it. Thankfully there are a couple of providers out there who match all these criteria.

In closing, I would like to wish you good luck. If this is your only investment you want to explore splitting across other products, such as a tax-free savings account, to get product, liquidity and tax diversification.

▶ *Katzenellenbogen is financial advisor at NFB Private Wealth Management*