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RA limits could hit your retirement

Mzwandile Jacks

Individuals who have invested in retirement annuity (RA) and other retirement savings vehicles have been warned to consult their financial advisers to check the impact the changes in the Pension Funds Act could have on their portfolios.

Roland Gräbe, chief investment officer at Symmetry Multi-Manager, said this was influenced by the imminent changes in Regulations 28 of the Pension Funds Act.

These changes, he said, were likely to have a significant impact on the manner individual consumers saved and invested their hard earned cash in the future. All forms of retirement savings would be affected. Regulation 28 sets out strict limits that govern the investment exposure of retirement funds.

The changes are set to come into effect from July 1 this year and have not been well communicated to individuals. But they will have an effect on pension funds and existing retirement annuities and preservation funds.

"There are many proposed changes, but perhaps the most important that needs to be highlighted is that the restrictions on asset class investing will now be applied down to fund member level and to private retirement savings vehicles like RAs," Gräbe said. "This means that within a company pension fund, individual members will need to ensure their contributions are invested according to the limits.

"Previously, members could exceed the limits as long as the fund as a whole was compliant. So, certain members could, for example, have higher allocations to equity or property where they wished (as long as this was offset by other members holding lower holdings). Gräbe said: "Individuals will have to make sure their extra savings in new RAs and preservation funds created after 1 July do comply." Previously, an investor using an RA could put his cash in whatever assets he preferred, such as 100% equities or 100% offshore, as long as the investment vehicle complied at the top level."

Gräbe added that the industry would not expect these existing RAs to comply with the new regulations as long as they remained unchanged.

But should an investor opt to make even one change or transaction on an existing investment, such as altering a contribution amount, withdrawing funds or changing exposure, the fund would then also have to comply with the new limits. "Obviously, these limits might not be ideal for a younger individual who has a long-term investment horizon and wants to take on some extra risk."