



Two-pot Retirement Reform

Change is underway!

The South African government has taken great strides towards developing legislation that will empower and uplift vulnerable South Africans whilst at the same time creating a vehicle that promotes stability and financial security. Within the retirement fund industry, this is no small task.

The two-pot retirement system is the perfect example of such a vehicle that will give members in need, access to their funds whilst at the same time providing the opportunity to save and prepare for the future.

The two-pot retirement system will take effect on 1 September 2024 and marks a significant change within the retirement fund industry!

The objectives of the two-pot retirement system are twofold:

1

It allows members WHO HAVE NOT YET RETIRED to access a portion of their retirement funds in times of dire financial crisis

2

At the same time, it promotes and improves the long-term preservation of retirement assets UNTILL SUCH TIME AS THE MEMBER RETIRES

HOW DOES IT WORK?

As from 1 September 2024, any contributions made to your retirement funds will be split into two pots

1

$\frac{1}{3}$ of your contribution goes into the SAVINGS POT

2

$\frac{2}{3}$ of your contribution goes into the RETIREMENT POT

- All assets that already exist within a member's retirement fund by 31 August 2024 will be preserved separately and will continue to be regulated and taxed according to the rules and legislation that currently apply thereto. This is known as the VESTED COMPONENT. Upon retirement, the member will be able to withdraw up to $\frac{1}{3}$ of the balance in this vested component as a lump sum whilst the balance is to be used for the purchase of a compulsory annuity.
- Starting 1 September 2024, 10% of your vested component will be transferred into your savings pot and will form your starting balance. This starting balance is 10% of a member's fund value on 31 August 2024, but capped at R30, 000 (whichever is lower).
- The effect of new legislation will be that members will now be able to access funds from this savings pot before retiring from the fund! Withdrawals from the savings pot are limited to one withdrawal per tax year with a minimum withdrawal amount of R2, 000. Such a withdrawal will be taxed at the member's marginal income tax rate.
- Any value remaining in the savings pot AT THE TIME OF RETIRING can be withdrawn either partially, or in full and will be taxed according to the retirement lump sum table.
- Members will not have access to the funds within the retirement pot and no cash withdrawals are permitted. Instead, the entirety of the asset value within this pot must be used to buy an annuity ONCE THE MEMBER RETIRES.

IMPORTANT EXCLUSION!

TAKE NOTE that members who are 55 years or older on 1 March 2021 will not automatically form part of the two-pot system.

Instead, these member's current rights in respect of their fund benefits will remain protected and the rules and legislation that currently exist will continue to apply to them.

These members will, however, be allowed to participate in the two-pot system, should they choose to do so. In which case the member will have to submit an "opt-in instruction" to their provident fund administrators.

TAKE NOTE, however, that once a member has elected to take part in the two-pot system, the decision cannot be reversed, and the member will remain subject to the new rules and regulations going forward.

CEO SAYS

Although the notion of newly gained access to funds seems exciting, I feel it important to note that withdrawal from your savings account should be reserved for a financial crisis and should under no circumstances be used to supplement your lifestyle. South Africans have a tendency to neglect sufficient saving for retirement and I urge you to save as much as possible, for as long as possible to avoid financial hardship in the later years when you are retired and no longer able to generate an income.

In addition thereto, it is imperative to note that although the legislation takes effect on 1 September 2024, members cannot expect that an eligible withdrawal will pay out on said date. The application will take time to process, and employees seeking an immediate withdrawal from the savings pot should expect earliest payment towards the end of September 2024 or later.

Important information

All information and opinions provided are of a general nature and are not intended to address the circumstances of any particular individual or entity. No one should act upon such information or opinion without appropriate professional advice after a thorough examination of a particular situation. We endeavour to provide accurate and timely information, but we make no representation or warranty, express or implied, with respect to the correctness, accuracy or completeness of the information and opinions. We do not undertake to update, modify or amend the information on a frequent basis or to advise any person if such information subsequently becomes inaccurate. Any representation or opinion is provided for information purposes only.