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The two-pot retirement system–what to expect on 1 September 2024

With the new two-pot retirement system taking effect in six weeks, members of retirement funds should ensure that they understand the implications of the system, according to Adri Messerschmidt, senior policy advisor at the Association for Savings and Investment South Africa (ASISA).

The only retirement fund members who will not automatically become part of the new two-pot system are:

- "legacy" retirement annuity members, and
- members of provident or provident preservation funds who were 55 years or older on 1 March 2021 and who are still members of the same provident fund when the new system kicks in.

Messerschmidt says retirement fund members expecting to withdraw some of their money once the new system kicks in on 1 September 2024 should also familiarise themselves with the withdrawal requirements and processes.

She emphasises that the new two-pot system is being implemented to give members access to some of their retirement savings in times of great need while, at the same time, forcing the preservation of two-thirds of retirement savings from 1 September 2024.

"It is important to understand that absolutely nothing changes for retirement savings made until 31 August 2024. Your current rights remain protected in the vested pot, and there is no need to panic and resign to cash in your retirement savings made before the implementation of the two-pot system."

Messerschmidt adds that 10%, to a maximum of R30 000, will be moved from your existing retirement savings (your vested pot) into your new savings pot from 1 September 2024. This is a once-off event aimed at giving you the opportunity to withdraw some money should you find yourself in great financial difficulty.

How will the withdrawal process work?

According to Messerschmidt, the withdrawal process will be determined by individual retirement funds.

The first step is to ensure your retirement fund has your current contact details. If your fund cannot communicate with you, you will likely miss important announcements regarding the withdrawal process."

Messerschmidt says if you have not heard from your fund in a while or have not received your benefit statements, you need to speak to your retirement fund and check that your contact details are up to date.

“At the same time, also check that your personal details are correct. If the spelling of your full name on your fund’s record differs from your identity document, your application will be rejected to avoid fraud. Your full name and identity number must be the same across all records and reflect accurately on your proof of bank account document.”

What to consider before submitting a withdrawal application

Messerschmidt explains that withdrawals are not allowed without a tax directive from the South African Revenue Service (SARS).

“While retirement fund administrators will apply for a tax directive on your behalf, they can only do this if you have a valid income tax registration number. If you are not currently registered as a taxpayer, you need to register before applying for a withdrawal.”

Messerschmidt points out that while you may not currently earn enough to pay tax, a withdrawal from your savings pot is considered income, and if it pushes you into a higher tax bracket, you will have to pay tax on the withdrawal. This is why you must be registered as a taxpayer before submitting a savings pot withdrawal.

She cautions taxpayers who owe SARS taxes, penalties or interest on outstanding taxes to expect that these debts may be settled from any savings pot withdrawals. “This may mean a much lower payout than you had expected.”

Once a fund administrator has applied for a tax directive, SARS rules state that the withdrawal process cannot be stopped, says Messerschmidt. “You cannot change your mind once you see the tax implications of your withdrawal request. It is also important to note that savings pot withdrawals may attract an administration fee to be determined by your fund’s administrator.”

Messerschmidt says it is incredibly important to consider the full impact of making a withdrawal and to weigh up whether it is really worth dipping into your retirement savings.

What needs to happen before withdrawal applications can be processed?

Provided the rules of a retirement fund have been updated to enable the new two-pot retirement system and approved by the Financial Sector Conduct Authority (FSCA) by 1 September 2024 (a Sunday), the retirement fund can update its administration systems from Monday, 2 September 2024.

Messerschmidt explains that fund administrators will do the “seeding” calculations and transfer 10% (to a maximum of R30 000) of each member’s existing retirement savings as at 31 August 2024 into the new savings pot.

She says that in terms of the Revenue Laws Amendment Act of 2024–the law enabling the two-pot retirement system–the seed capital can be allocated on or after 1 September 2024 as long as the calculations are based on the value as at 31 August 2024.

“Since fund administrators will have to do this for millions of retirement fund members, this will take some time. Only once the administration systems have been updated and the seeding calculation done will members have a balance in their savings pot to withdraw.”

Messerschmidt says it is important to note that the balance in the savings pot must be R2 000 or more before a withdrawal can be made. Tax will be deducted from the withdrawal amount, and administration costs could be applied. Qualifying retirement fund members must submit an application form to their retirement funds before they can withdraw from their savings pot.

“This will not be an automatic process and retirement fund members will not receive an automatic deposit into their bank accounts. The fact that the money is available for withdrawal in the savings pot does not mean it will automatically be paid out.”

How long will the withdrawal process take?

Once the retirement fund has implemented the new system and the fund administrator has transferred the “seeding” money into the savings pot, qualifying retirement fund members can submit their applications according to the process communicated by their retirement fund or the fund administrators.

Messerschmidt says once a fund member has submitted the application form for a savings pot withdrawal, the following steps will determine how long it will take before the fund member receives a payout:

- Once the retirement fund or the fund administrators receive the application form, a member verification process will be activated to prevent fraud. If the personal details on the application form do not match the details on the fund’s records, the application will be rejected. To prevent unnecessary delays, fund members should verify their details with their retirement funds before 1 September 2024.
- If the member has been successfully verified, has provided the information requested on the application form and a tax number, and has at least R2 000 available in the savings pot for withdrawal, the fund administrator will apply for a tax directive from SARS.
- SARS will provide a tax directive indicating how much tax, if any, is payable and also if any outstanding taxes, penalties and interest are payable to SARS. Money owed to SARS, together with tax payable on the withdrawal, will be deducted from the requested withdrawal amount first. The fund administrator could also deduct an administration fee.
- The fund administrator will make these deductions and pay the balance into the member’s bank account. The payment will only be made into verified bank accounts to prevent fraud.

Messerschmidt says that process can take several working days, provided there are no snags, such as unverified details or incomplete application forms. In addition, fund administrators are expecting large volumes of applications, which is likely to result in delays.

"We are therefore requesting fund members to be patient, especially in the first few weeks following the implementation date of 1 September 2024.

Withdrawals will cost you and should be a last resort

Messerschmidt remind retirement fund members to carefully weigh up the pros and cons of applying for a withdrawal before submitting the application form.

"If you are not sure about your potential tax liability and what to do, ask your retirement fund or financial advisor for guidance before applying for a withdrawal."

She reminds retirement fund members that the money in all pots–the vested pot, the savings pot and the retirement pot–should be preserved at all costs unless there is a significant financial emergency. "Any money withdrawn before your retirement will not only cost you in taxes and fees but will also reduce the money available to you when you retire."

Ends

Note to editors: More information on the new two-pot retirement system is available from SmartAboutMoney.co.za, an ASISA consumer education initiative. In accordance with the guidelines set out in the Smart About Money editorial policy, articles and infographics can be republished at no cost.

You will also find a question-and-answer section on the two-pot system here.

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