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## TWO-POT RETIREMENT SAVINGS SYSTEM



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At retirement, you stop working but there are still costs to be met such as living expenses like food, clothing and medical care. Retirement savings are important for this reason.



Sadly, most South Africans are not saving for retirement, those who save do not save enough and research shows that a large number of those who save, tend to withdraw their savings prior to retirement to cover some financial difficulties such as debt.

Currently, retirement savings can only be accessed when the fund member retires, is dismissed or resigns and unfortunately, some fund members are resigning from their jobs only because they want to access their retirement savings due to difficult financial situations.

To help with this situation, the Government is introducing new laws to implement a system called the Two-Pot Retirement System that will come into effect from 1 September 2024.

### WHY ARE THESE REFORMS BEING INTRODUCED?

The Two-Pot Retirement System will enable employed people who are retirement fund members to access a portion of their retirement savings prior to retirement and without having to resign if they encounter financial emergencies. This system will ensure that only a small part of their retirement savings is available for emergencies and the majority of their retirement savings are preserved until retirement.

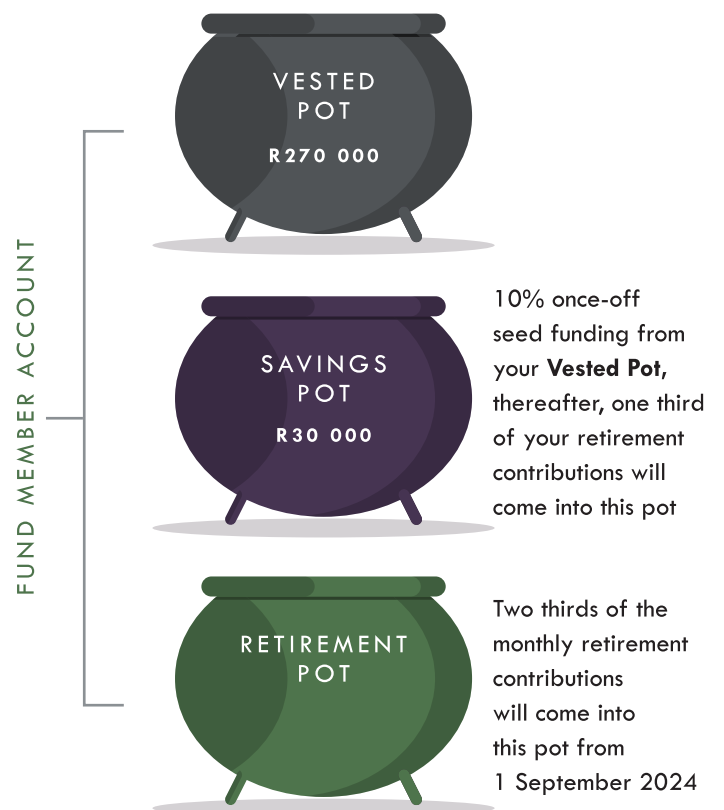
From 1 September 2024, fund members' retirement contributions will be split as follows:

- **TWO THIRDS** into their **Retirement Pot** which is the bulk of their retirement savings and which members of retirement funds are not allowed to access until normal retirement age.
- **ONE THIRD** into their **Savings Pot** which can form up to one third of their retirement savings. All of this pot can be accessed by the member prior to the normal retirement age, should they have an emergency and an urgent need to access this money.

To kick-start your **Savings Pot**, 10% of your existing retirement savings (fund balance) saved up to 31 August 2024 will be transferred into the **Savings Pot** as "seed" funding for the **Savings Pot** but limited to R30 000. This will be a once-off event. The remaining fund balance, called the **Vested Pot**, will still belong to you. The **Vested Pot** will continue to grow with investment returns but no new contributions can be made into this pot. These funds will be available to you as a cash lump sum if you leave the fund.

So, to illustrate this, if by 31 August 2024 your retirement savings have a fund balance of **R300 000** the following will happen:

10% of the R300 000 will be moved to your **Savings Pot** as seed funding. Meaning you will have **R270 000** remaining in the **Vested or existing Pot**.



With the **Savings Pot** in place, if you face financial difficulties, you may apply to withdraw some or all of the money in your **Savings Pot** with a minimum withdrawal of R2 000. You may only make one withdrawal once every tax year (from 1 March to 28 February) until you retire.

You will be taxed when you make a withdrawal based on your marginal tax rate (which is the rate of tax applicable as if you had received this withdrawal as salary). The fund may also charge an administration fee when making withdrawals.


All contributions made into the **Retirement Pot** from 1 September 2024, cannot be accessed prior to retirement. The less you withdraw from your **Savings Pot**, the more

money will be available together with your **Retirement Pot** to purchase a pension. This will improve your standard of living after retirement as all the funds in your various pots count towards your total retirement savings which will be used to purchase a pension.

**The changes are being introduced for two reasons:**


1. To encourage fund members to save for their retirement and to encourage fund members to keep their retirement savings preserved until retirement age.
2. To help those fund members in serious need due to some financial emergencies or hardships to be able to access a portion of the savings without having to resort to resigning or being dismissed.

### SEEDING YOUR SAVINGS POT




## MEET SAM

Sam has a total of **R100 000** in retirement savings.




On 1 September 2024, 10% of his accumulated retirement savings is used to “seed” his **Savings Pot**.




R10 000 of Sam’s total retirement savings is transferred into Sam’s **Savings Pot**.

He can choose to immediately withdraw some or all of this amount if he wishes provided he draws at least **R2 000**.


Sam applies to withdraw this R10 000. He is taxed at 18% and receives R8 200. (Please note, the tax bracket will differ according to the individual’s total income for that year). Your total income for the year will be based on your income plus the withdrawal amount from the **Savings Pot** and tax will be calculated on that amount.






## MEET BONGGI

Bonggi has a total of **R10 000** in retirement savings.




On 1 September 2024, 10% of her accumulated retirement savings is used to “seed” her **Savings Pot**.



R1 000 of Bonggi’s total retirement savings is transferred into Bonggi’s **Savings Pot**.

**BUT** she is unable to immediately withdraw this amount as the minimum withdrawal is **R2 000**.

Bonggi has less than the R2 000 minimum for withdrawal, so she cannot immediately withdraw any of her **Savings Pot**. The amount in Bonggi’s **Savings Pot** will continue to grow as Bonggi continues to work and contribute towards retirement savings. Once one third of her contributions into the **Savings Pot** when added to her “seed” amount of R1 000 reaches at least R2 000, she will be able to withdraw from her **Savings Pot**. She will have to pay tax on her withdrawal based on her total income for that year.



### WHAT WILL HAPPEN AT RETIREMENT?

At retirement, you will be able to withdraw the balance of your first (or **Vested**) **Pot** as well as any balance in your **Savings Pot** as a cash lump sum. You will be taxed if the total amount of this withdrawal is greater than R550 000. The balance in your **Retirement Pot** must be used for

“annuitisation” - this means the balance in your **Retirement Pot** will be used to buy a monthly pension from a life insurer, and you will receive a monthly payment called an annuity or pension from that life insurer during your retirement.



## WHAT DOES THIS MEAN?

At retirement aged 63, **Busi has accumulated R1 000 000** (one million rand) in retirement savings split between her three pots.



- Busi may, withdraw some or all of her **Savings Pot** balance as a cash lump sum **She will not pay tax on this withdrawal as it is less than R550 000.**
- Busi will have to use the balance in her **Retirement Pot** (and if she wishes to, add in any remaining balance of her **Savings Pot** that she doesn't want to withdraw) to **purchase an annuity** which will pay her a monthly pension in her retirement.

At retirement aged 65, **Jenny has accumulated R500 000** (five hundred thousand rand) in retirement savings split between her three pots.



- Jenny has withdrawn almost all of her Savings Pot over the years since 1 September 2024.**
- Jenny may draw a cash lump sum from her **Savings Pot** of R1 000. **There is now no minimum of R2 000 as she is retiring.**
  - Jenny will have to use the balance in her **Retirement Pot** to **purchase an annuity** which will pay her a monthly pension in her retirement.

**For Provident Fund Members:** If you were a member of a Provident Fund on 1 March 2021, there may be elements of your **Vested Pot** which will require to be added to your **Retirement Pot** to purchase an annuity on retirement.

## ARE THERE ANY EXEMPTIONS TO THESE RULES?

A member who retires and has a total retirement savings value of **R247 500 (two hundred and forty seven thousand and five hundred rand) or less** will be exempt from these rules and at retirement can opt to take all of their savings in a cash lump sum. This amount will also be exempt from tax, meaning it will not be taxed.

Anyone who was a member of a provident fund and was **55 years or older** on 1 March 2021 when the provident fund reforms were introduced is also exempt from the Two-Pot Retirement System but they may opt-in if they wish. The opt-in option will only be available until 1 September 2025. If fund members did not opt in before then, they will forever be out.

## SOME FREQUENTLY ASKED QUESTIONS

### Q Who is the Two-Pot Retirement System for?

A Any South African who is a member of a pension fund, a provident fund, a retirement annuity or a preservation fund.

### Q Is it compulsory for me to take the money in my Savings Pot on or from 1 September 2024?

A No, it is not compulsory. If you continue saving the money and leave it invested in your **Savings Pot**, it will continue growing and you will accumulate more towards your retirement.

### Q Can I ask for the money to be moved from my Savings Pot to my Retirement Pot?

A Yes, you may ask for all of the money or part of the money in your **Savings Pot** to be moved to the **Retirement Pot**. This would be a very wise decision, as you will one day retire with more money as you have not withdrawn some or all of your **Savings Pot** and you will retire in greater comfort as a result as you will receive a bigger monthly pension. Note that once it has moved to your **Retirement Pot**, you cannot move it back to the **Savings Pot**.

### Q Will the amounts in our Savings Pots differ even though we work for the same employer?

A Yes, the amounts in each person's **Savings Pot** differs depending on the total accumulated retirement savings and their years of service and the number of years they have been part of a retirement fund.

### Q How much will I be taxed if I withdraw from my Savings Pot?

A The tax rate will differ from one individual to another depending on your total income for the year and your tax bracket. Note that if you withdraw money from the **Savings**

**Pot**, that income is added to your annual income. In some instances, it may push your annual income to a higher tax bracket. It is advised that you consult with a financial adviser and check your situation prior to making any withdrawals.

### Q What happens to my Pots if I leave my current employer and get a new job?

A Your Pots will transfer with you to your new employer's retirement fund and will be used in exactly the same way. The **Vested Pot** will also move. One third of your new employer's contribution will go into your **Savings Pot** and two thirds of your new employer's contribution will go into your **Retirement Pot**.

### Q Where can I get more information?

A You can talk to your HR department, HR Manager or the Retirement Fund Administrator (from the company that manages your retirement savings) or from a registered financial adviser.

### Q Will people who save with public or government retirement schemes such as Government Employees Pension Fund (GEPF) also be affected by these changes?

A Yes, they will also be affected.

### Q Will those saving via Retirement Annuities Funds be affected by these changes?

Yes, they will be, but members of older (legacy) Retirement Annuities (RAs) may be excluded from these reforms and may not be able to access the **Savings Pot**. Contact a financial adviser or the company you have invested your RA with to check your specific situation.

