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BACKGROUND TO RETIREMENT REFORMS
Retirement reform is a long-term and continuous exercise, and it is not an easy one.

The primary aim of the 2012 retirement savings proposals was to encourage household savings and ensure that individuals are not vulnerable to poverty, especially in retirement when they may be unable to work.
The papers on retirement proposals released between 2012-2014 deal with:

- Encouraging **PRESERVATION** of retirement funds
- Enhancing **GOVERNANCE** of retirement funds
- Encouraging **ANNUITISATION** at the time of retirement
- Simplifying the **TAXATION** of retirement contributions
- Encouraging **NON-RETIREMENT saving** through tax free saving plans
- Promoting **COST-EFFECTIVE** retirement products and services
TWO-POT RETIREMENT SYSTEM
TWO-POT RETIREMENT SYSTEM: POLICY BACKGROUND

The FIRST CONCERN is the lack of preservation before retirement:

- For pension funds and provident funds, this access is dependent on an employee **TERMINATING EMPLOYMENT**

- Individuals can **ACCESS THEIR FUNDS**, in full, when changing or leaving a job

There are **TWO PRIMARY CONCERNS** regarding the current design of the retirement system.
There are two primary concerns regarding the current design of the retirement system.

The second concern is the lack of general savings & access to a retirement fund even in cases of emergency by some households that are in financial distress but have assets within retirement funds.
To address these concerns, during the February 2021 Budget Speech and November 2021 MTBPS Speech, the Minister made an announcement in this regard.

These announcements were followed by a discussion document published by National Treasury for public comment on 15 December 2021, titled “Encouraging South African Households to save more for retirement”
TWO-POT RETIREMENT SYSTEM REFORMS
TWO-POT SYSTEM REFORMS

TWO NEW POTS
Changes affect all funds (will also apply to public sector funds)

After implementation each member will **contribute** 2/3rd of their contributions to the retirement pot

After implementation each member will **contribute** 1/3rd of their contributions to the savings pot

VESTED POT
Pre-1 September 2024 balances

No further contributions into this pot for pension funds or retirement annuity funds or provident funds (ring-fenced)
Exception will be provident fund members who were over the age of 55 on 1 March 2021.

These members can continue to contribute to that provident fund vested pot if they choose not to be part of the two-pot regime.

Revised draft legislation now refers to “components” instead of “pot”, but “pot” will be used for ease of reference and familiarity with the term.
Since DB (defined benefit) funds **use a formula to define benefits**, the two-pot system will use a reduction in years of service of a member when a withdrawal is made.

DB funds will notionally refer to vested pot in terms of pensionable service before implementation date.
Savings and retirement components will be created

Seeding capital calculated for DB funds also
10% up to R30,000 of benefit before implementation date
Old generation RA funds with certain features specified in legislation can apply to the **FSCA for an exemption** from the two-pot system.

**Funds excluded** from the two-pot regime are funds in liquidation, beneficiary funds, closed funds, and dormant funds, pensioners.
Section 37D deductions as contained in the **Pension Funds Act** (housing, divorce, maintenance, employee liability) will be permissible proportionally against the “savings component”, “vested component” and “retirement component”
WITHDRAWALS

Individuals may make withdrawals from the savings pot, and this withdrawal will be subject to normal income tax treatment, i.e. PIT rates apply.

No withdrawal limit

Only one withdrawal can be made in any tax year, and the minimum amount to be withdrawn is R2,000.
A member with multiple retirement contracts is allowed one withdrawal from each contract per year of assessment.

If a member terminates membership after making a withdrawal and the savings component is left with less than R2,000, the remaining balance can be withdrawn.
WITHDRAWALS

No withdrawals can be made
from the retirement pot (to be preserved), and the individual would be required to purchase an annuity with the full amount when they elect to retire, subject to the de-minimus

Withdrawals from vested pot are subject to current rules
(preserve or cash out)
TRANSFERS

No transfers can be made into the savings pot within the same fund except for the once-off seeding transfer.

Individuals would be able to transfer from the savings pot into the retirement pot if they choose to.

Transfer of pots to other funds is permissible but they must retain their character i.e. savings, vested and retirement pots remain as such.
TRANSFERS

All components must be transferred together ‘as is’ to the new fund, i.e. savings, retirement and vested components cannot be separated when making a transfer to another fund.

Transfers across funds only happen upon termination of membership in the respective fund.
RESIGNATION: PENSION & PROVIDENT FUNDS

POT

Fully accessible as a cash lump sum or can be transferred
- The withdrawal tax table applies to cash lump sum option
- Vested right protected when member resigns and transfers pot to another fund
- Transferring to retirement pot forfeits vested right

POT

Member continues with annual withdrawals or can be transferred to the retirement pot
- Withdrawals subject to normal tax if not transferred

POT

Preserved until retirement
RETRENCHMENT: PENSION & PROVIDENT FUNDS

Access to Vested Pot
- In terms of current rules

Withdrawals from Savings Pot
- Annual withdrawals subject to tax

Retirement Pot gets preserved until retirement
- In the second phase of the “two-pot” retirement system, legislative amendments should address withdrawals from the retirement component if a member is retrenched and has no other income
**Vested Pot at retirement**
Subject to current rules
- 1/3rd (R550,000 tax free amount) cash lump sum
- 2/3rd subject to de minimis annuitisation requirement
- Provident fund members >55 years on 1/3/2021 have a choice on whether to take everything as a cash lump sum or annuitise (If they remained in the same fund throughout)

**Savings Pot at retirement**
Accessible as cash lump sum if there is any balance left, subject to tax at the lump sum tables

**Retirement Pot**
At retirement members must annuitise subject to the de minimis threshold
AMENDMENTS TO PUBLIC SECTOR PENSION LAWS
AMENDMENTS TO PUBLIC SECTOR PENSION LAWS

Laws recently amended to support implementation of the two-pot system

1. PENSION FUNDS ACT
2. GOVERNMENT EMPLOYEES PENSION LAW
3. POST & TELECOMMUNICATIONS RELATED MATTERS ACT
4. TRANSNET PENSION FUND ACT
New definitions are proposed to be added to the bill in order to aid in its interpretation. Among these definitions is the definition of “pension interest,” which is introduced to:

Recognise marriages according to the tenets of a religion.
New definitions are proposed to be added to the bill in order to aid in its interpretation. Among these definitions is the definition of “pension interest,” which is introduced to:

On the day of the court order, apply the clean break principle (non-member spouse to receive immediate payment or transfer of the amount of the other spouse’s pension interest awarded to him or her at divorce)
AMENDMENTS TO PUBLIC SECTOR PENSION LAWS cont.

1. Allocate from all 3 components

2. Divorce order settlements

3. Any amount due by a member to the member’s employer

4. Any amount payable in terms of a maintenance order
EXAMPLES
CONCLUSION

There will be once-off seeding of 10% up to R30,000 at the start of the two-pot system.

EXAMPLE 1:
Themba has a fund value of R1,200,000 on 31/08/2024. Seeding into his savings component will be R30,000 (Working: 10% of R1,200,000 = R120,000 thus exceeds the cap of R30,000)

Retirement Fund Value (Vested Pot)
R1,200,000

R30,000 (Maximum)

Not R120,000 (10% of R1,200,000)
EXAMPLE 2:
Thembi has a fund value of R200,000 on 31/08/2024.
Seeding into her account with R20,000 (Working: 10% of R200,000 = R20,000)

Retirement Fund Value (Vested Pot) R200,000

R20,000 (10% of R200,000)
CONCLUSION cont.

Retirement fund payments will be split

1/3 into savings and 2/3 into retirement from September 2024

Example 3:
Amanda contributes R6,000 into her retirement fund monthly. Her monthly contribution to the savings component will be $1/3 \times 6,000 = R2,000$. Her monthly contribution to the retirement component will be $2/3 \times R6,000 = R4,000$. 

Retirement Fund Monthly Contribution
R6,000pm

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Savings
2/3
R4,000

Pension
1/3
R2,000

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Q&A available on the NT website:

THANK YOU