NATIONAL TREASURY

TWO-POT RETIREMENT SYSTEM

DATE: 25 APRIL 2024
TIME: 11H00-14H00
PLATFORM: ZOOM

PRESENTED BY:

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Date: 25 April 2024

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

CONTENTS

1. Background to retirement reforms
2. Two-pot system
3. Two-pot system reforms
3. Other laws to be amended to compliment the two-pot regime
4. Examples

BACKGROUND TO RETIREMENT REFORMS

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BACKGROUND

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

BACKGROUND cont.

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

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TWO-POT RETIREMENT SYSTEM: POLICY BACKGROUND

There are **TWO PRIMARY CONCERNS** regarding the current design of the retirement system

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

TWO-POT RETIREMENT SYSTEM: POLICY BACKGROUND cont.

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

TWO-POT RETIREMENT SYSTEM: POLICY BACKGROUND cont.

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 SYSTEM REFORMS

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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)

TWO-POT SYSTEM REFORMS cont.

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

TWO-POT SYSTEM REFORMS cont.

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

TWO-POT SYSTEM REFORMS cont.

Savings and retirement

components will be created

Seeding capital calculated for DB funds also

10% up to R30,000

of benefit before implementation date

TWO-POT SYSTEM REFORMS cont.

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

TWO-POT SYSTEM REFORMS cont.

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”

TWO-POT SYSTEM REFORMS cont.

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

TWO-POT SYSTEM REFORMS cont.

WITHDRAWALS

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

TWO-POT SYSTEM REFORMS cont.

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

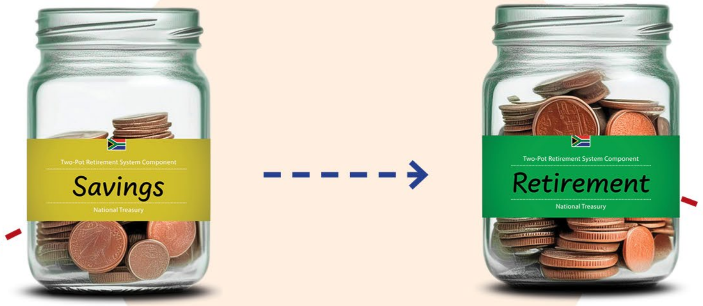
(preserve or cash out)

TWO-POT SYSTEM REFORMS cont.

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

TWO-POT SYSTEM REFORMS cont.

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

POT

POT

Fully accessible as a cash lump sum or can be transferred

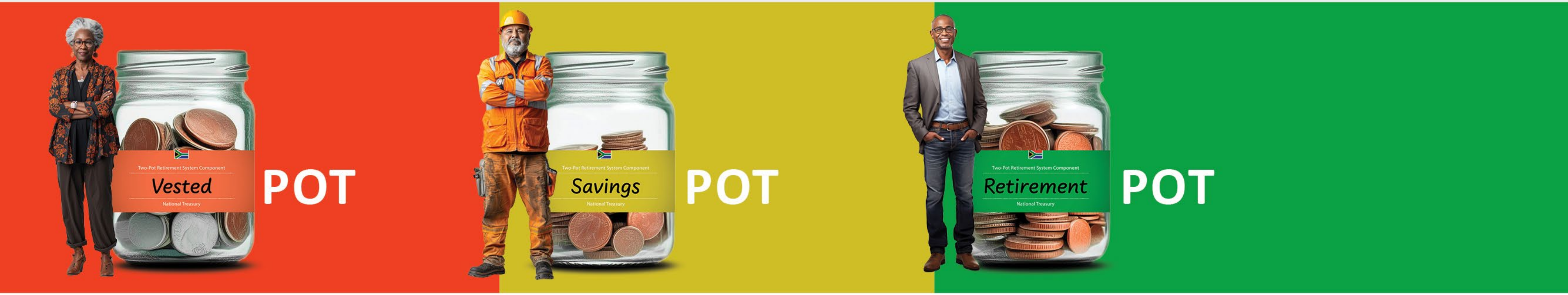
- The withdrawal tax table applies to cash lump sum option
- Vested right protected when member resigns and transfers pot to another fund
- Transferring to retirement pot forfeits vested right

Member continues with annual withdrawals or can be transferred to the retirement pot

- Withdrawals subject to normal tax if not transferred

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

RETIREMENT: ALL FUNDS

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 >55years 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

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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

AMENDMENTS TO PUBLIC SECTOR PENSION LAWS cont.

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

AMENDMENTS TO PUBLIC SECTOR PENSION LAWS cont.

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.

Allocate from all 3 components

1

Divorce order settlements

2

Any amount **due by a member to the member's employer**

3

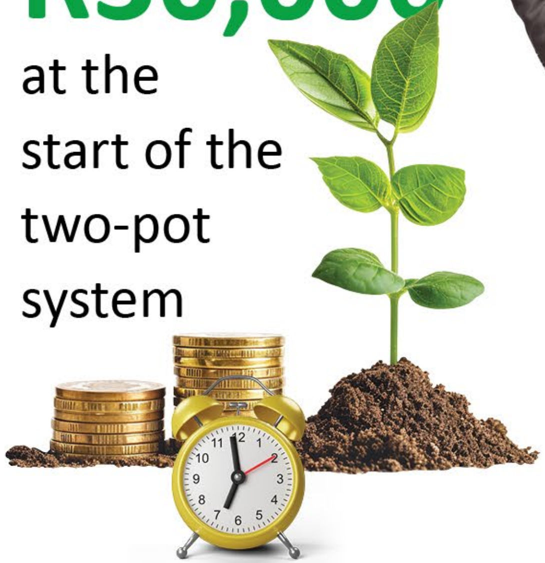
Any amount **payable in terms of a maintenance order**

EXAMPLES


Two-Pot Retirement System Component
Retirement
National Treasury
Two-Pot Retirement System Component
Savings
National Treasury
Two-Pot Retirement System Component
Vested
National Treasury

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)

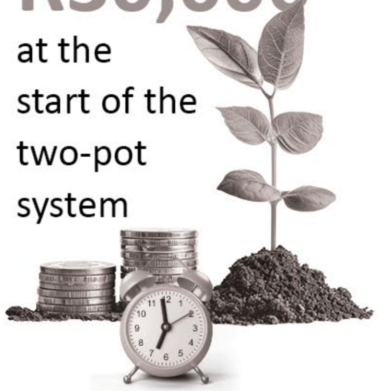
Retirement Fund Value
(Vested Pot)
R1,200,000

R30,000
(Maximum)

Not R120,000
(10% of R1,200,000)

CONCLUSION cont.

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



EXAMPLE 2:

Thembi has a fund value of R200,000 on 31/08/2024.

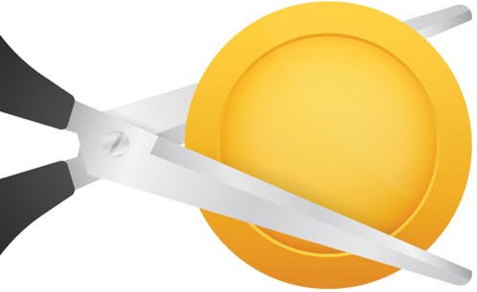
Seeding into her account with R20,000 (Working: 10% of R200,000 = R20,000)

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 x 6,000 = R2,000. Her monthly contribution to the retirement component will be 2/3 x R6,000 = R4,000

CONCLUSION cont.

Q&A available on the NT website:

www.treasury.gov.za/2024%20Two-Pot%20System%20-%20FAQ.pdf

CONCLUSION cont.

THANK YOU