FREQUENTLY ASKED QUESTIONS

UPDATED
AUG 2024

TWO-POT RETIREMENT SYSTEM

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

WHAT IS THE 'TWO-POT' SYSTEM OF RETIREMENT?

The two-pot retirement system is a reform that will allow retirement fund members to make partial withdrawals from their retirement funds before retirement, while preserving a portion that can only be accessed at retirement to help improve retirement outcomes. This means members need not resign to access part of their retirement benefit if they are in financial distress. This reform will come into effect on 1 September 2024.

WHO IS IT MEANT FOR?

The new system will apply to all active retirement fund members in both private sector and public sector funds, except for the old generation or legacy retirement annuity policies, or funds with no active participating members (such as funds in liquidation, beneficiary funds, closed funds or dormant funds). Pensioners and members of provident funds that were 55 years and older on 1 March 2021 who have not opted to be part of the two-pot system will also be excluded.

WHY THE TWO-POT SYSTEM?

This system is meant to support long-term retirement savings while offering flexibility to help fund members in financial distress. In many cases, retirement funds are the only savings that fund members have. Under the current system, some members resign to access their retirement fund savings to pay off debt, which is detrimental from an economic, financial planning and retirement provision point of view. The two-pot system is meant to help fund members in times of financial difficulty by allowing access to the savings component before retirement. It is advisable that members use the savings component sparingly and only when there is a dire need. Importantly, it also protects a portion of savings to only be used for retirement.

HOW WILL IT WORK?

The reform creates a "savings component", a "retirement component" and a "vested component". Only the "savings component" and "retirement component" can receive retirement contributions from the implementation date onwards. The vested component will house retirement benefits accumulated by the member before the implementation date. Investment growth will still be credited to this component.

From 1 September 2024, retirement contributions will be split by your retirement fund into a savings component and a retirement component. A ratio of 1/3 (one-third) of total contributions will go into the savings component and 2/3 (two-third) of total contributions into the retirement component.

For example, if person A's retirement contribution in September 2024 is R900 per month, R300 will go to the savings component and R600 into the retirement component. From this example, person A can accumulate R3 600 in the savings component over a 12-month period. Person A would be able to withdraw any amount from the savings component, the withdrawal should not be less R2 000 and a withdrawal can only be made once in a tax year. One does not need to make a withdrawal from the savings component every tax year. Amounts in the account will still be available for withdrawal in future years and would benefit from tax-free growth within the account until a withdrawal is made.

The savings component will be accessible at any time, but withdrawals must be a minimum of R2 000 and only one withdrawal may be made in a tax year. What is withdrawn will be taxed at the individual's marginal tax rate. There is no maximum withdrawal limit on the savings component.

The retirement component cannot be accessed on resignation and may only be accessed at retirement. That means it will be preserved until retirement. Retrenchment cases will be dealt with in another phase of this reform process.

The retirement value accumulated as at 31st August 2024, referred to as the "vested component", will not take further contributions but will remain invested by the retirement fund. Should you resign in future, your current right (vested right) to access this component or have it transferred to a preservation fund is maintained.

WILL THE AMOUNT ALLOCATED TO THE VESTED COMPONENT GROW WITH INTEREST?

Yes, the vested component will be credited with fund return. There simply will not be additional member contributions into this component.

WILL THERE BE IMMEDIATE ACCESS (SEED CAPITAL)?

From the value of your fund on 31st August 2024, 10% or R30 000, whichever is lower, will be allocated to the savings component. This is called seeding capital. This will be a once-off transfer at the start of the two-pot system and will not be repeated in the following years.

For example, if you have a R200 000 fund value on 31st August 2024 the seeding amount will be R20 000 (this being 10% of R200 000).

If another member has R750 000 fund value in the vested component, the seeding amount will be R30 000, since 10% of R750 0000 exceeds the cap of R30 000. Despite R75 000 being the 10% of R750 000 - this amount will be capped at R30 000.

WILL MEMBERS RECEIVE THEIR WITHDRAWALS IMMEDIATELY ON 1 SEPTEMBER?

It is unlikely that funds will be able to pay out withdrawal claims immediately when the two-pot retirement system takes effect on 1 September. The new two-pot system will take effect on this date; however, several steps need to be implemented first. The seed capital calculation, which determines the initial amount to be allocated to the savings component will be conducted using values at the end of August. Funds will also need to receive, verify and process withdrawal claims received.

Funds also need to amend their rules and have them approved by the Financial Sector Conduct Authority before implementing the new system. In addition, new systems need to be in place to allow for such annual withdrawals both from a fund and SARS perspective.

IS THE 10% OR R30 000 GOING TO APPLY ANNUALLY?

No. The 10% up to R30 000 is NOT an annual maximum withdrawal amount but a once-off amount that can be transferred from the vested component to the savings component.

WILL THE FUND MEMBER LOSE THE MONEY IF A WITHDRAWAL IS NOT MADE?

No. If a fund member chooses not to make a withdrawal from the savings component, the component will continue to grow. A withdrawal of any amount can be made when the member chooses to. The savings component can also be left untouched until retirement where a cash lump sum can be withdrawn.

IS THERE A MAXIMUM WITHDRAWAL AMOUNT OR LIMIT?

No. A withdrawal of any amount can be made from the savings component but not less than R2000. Withdrawals are permitted once per tax year and are taxable based on the member's marginal tax rate.

WHAT IS THE WITHDRAWAL CLAIMING PROCESS?

Retirement fund members must apply to or enquire directly from their retirement funds on the withdrawal process.

WHAT HAPPENS WHEN A MEMBER RESIGNS FROM EMPLOYMENT?

Old rules will apply to retirement savings accumulated before 1 September 2024. A member still has full access to accumulated retirement savings (which will be in the vested component) when resigning – this can either be taken as cash (subject to tax) or transferred to another retirement fund. A member can also still access what is in the savings pot after resignation. The retirement component is not accessible when a member resigns.

WHAT HAPPENS IN THE EVENT OF A DIVORCE?

Divorce orders will continue to be applied against a member's entire retirement savings. Meaning that the divorce order claim will be effected proportionally across all of the components that a member has. It is critical that the fund be notified if the process of getting divorced has been started.

WILL THE SAVINGS COMPONENT EARN INTEREST?

Yes, the money in the savings component will earn a fund return depending on how long it is invested.

WHAT IS THE EFFECT ON PROVIDENT FUND MEMBERS 55 YEARS OR OLDER ON 1 MARCH 2021?

These members will not be automatically included in the two-pot system, but they may elect to participate should they wish to. They can do so by applying to their provident fund. Should they elect to be in the two-pot system, they cannot reverse their decision.

WHERE WILL THE SEEDING COME FROM FOR PROVIDENT FUND MEMBERS LESS THAN 55 YEARS OLD IN 2021?

For the provident fund members who were less than 55 years as on 1 March 2021, their seeding will be taken proportionally from the pot that was vested in 2021 and the non-vested pot.

WHAT IS NEXT IN THE PROCESS?

Now that the two bills (the Pension Funds Amendment Bill and the Revenue Laws Amendment Bill) have been signed into law by the President, retirement funds must apply for rule amendments with the Financial Sector Conduct Authority and change their systems to implement the two-pot regime from 1 September 2024. Funds will also communicate with their members on how savings withdrawal claims will be processed.

WHAT SHOULD YOU DO?

1. Please ensure that your retirement fund has your correct contact details. This is important so that they can contact you about the reform.
2. Keep an eye out for communication from your retirement fund administrator or the trustees of the fund, as they need to communicate with members about the implementation of the reform.
3. Carefully consider your options and seek advice from an accredited financial advisor.
4. Identify your long-term savings goals and plan for your future – and try to save as much as you can when you can. Unforeseen events may mean that you must adjust the plan – but start with a plan. You will have more flexibility than ever before – but that comes with the responsibility to protect yourself now and for the future.
5. If you are a provident fund member that was over the age of 55 on 1 March 2021, then you have the option of structuring your contributions to follow the two-pot design.
6. If you have contributed to your retirement fund over several years, you may have access to a withdrawal from the seeding capital on implementation. Do not make hasty decisions to take a withdrawal. It may be tempting to make a withdrawal as soon as possible – but keep in mind that you will be giving up the amount drawn plus all interest on that amount in retirement. Plus, if you wait to withdraw money from the savings component until retirement, it will attract less tax.
7. Consider whether you would rather transfer funds from your savings component to the retirement component.
8. Do not let anyone pressure you to do anything

that is not in your interest. While it is good to help people when one can, you have worked hard to save for retirement – and the longer it remains invested, the better.

9. If you need help but do not know where to start, contact your retirement fund.

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