Two-pot retirement system and provident fund members

Members of provident funds* who were 55 years or older on 1 March 2021 and have remained a member of the same provident fund are automatically exempted from the two-pot retirement system.

Their current rights in respect of their fund benefits will remain protected, and the legislation as it exists currently will continue to apply to their benefits. They can continue to make 100% of their contributions to the Vested component from 1 September 2024, and they do not have to buy an annuity with their withdrawal benefit at retirement.

These members have the option to join the two-pot system. It is possible that these members will be given one year to opt in (the legislation on this has yet to be finalised).

Members who want to participate must submit an "opt-in instruction" to their fund administrator. Once a member has opted to join the two-pot system, he or she cannot reverse that decision. Note that provident fund members who were younger than 55 on 1 March 2021 are included in the two-pot system, as are provident fund members who were 55 or older on 1 March 2021 and did not remain in the same fund after that date.

References to "provident funds" in this document include "provident preservation funds".

Vested component with a vested and a non-vested benefit

As our brochure explains, under the two-pot retirement system, fund members' savings will be allocated among two or three components: Savings, Retirement, and Vested (in the case of members with savings accumulated before 1 September 2024).

What are known as the **T-Day reforms** created **vested** and **non-vested benefits** – also called portions or accounts – for members of provident funds.

Unfortunately, the use of the term "vested" with respect to the two-pot system and the T-Day reforms can result in confusion, because certain provident fund members who participate in the two-pot system will have a **Vested component that consists of a vested benefit and a non-vested benefit.**

T-Day commenced from 1 March 2021. The T-Day reforms introduced the compulsory annuitisation of at least two-thirds of the provident fund benefits accumulated from 1 March 2021 to normal retirement date. Previously, members of provident funds could take their entire retirement benefit as a lump sum.

The T-Day reforms also introduced a measure of protection when it comes to members' right to take their benefit as a cash lump sum at retirement. This right depends on:

- whether they were younger than 55 years on 1 March 2021; or
- whether they were 55 or older on 1 March 2021 and remain in the same fund until they retire.

55 or older on T-Day and remain in the same fund

Members of provident funds who were 55 or older on T-Day and remain in the same fund have a vested right (their vested benefit) to all their contributions made before and after T-Day (plus the investment returns earned on these contributions). These members can take their entire benefit as a cash lump sum at retirement.

If these members opt to join the two-pot system, their Vested component will consist of their vested benefit.

All contributions made from the month in which they join the two-pot system will be split between the Savings and the Retirement components. They will have the same withdrawal rights (and restrictions) as do other fund members in respect of the Savings and Retirement components.

Their Savings component will be seeded from the Vested component, with the seeding calculation based on the value of the Vested component on 31 August 2024.

55 or older on T-Day and transfer to another fund

Members of provident funds who were 55 or older on T-Day and transfer to another fund after T-Day have vested and non-vested rights (shares).

The vested benefit comprises the retirement savings accumulated in the old fund before and after T-Day (plus the investment returns earned on these accumulated savings). The non-vested benefit comprises the member’s contributions to the new fund from the date of transfer (plus the investment returns).

At retirement, if two-thirds of the non-vested benefit plus 100% of the value of Retirement component is R247 500 or less, a member can take the entire benefit as a cash lump sum.

Under the two-pot system, these members’ Vested component consists of the vested benefit and the non-vested benefit.

Younger than 55 on T-Day

Members who were younger than 55 years on T-Day also have vested and non-vested rights (shares). The vested benefit comprises the retirement savings accumulated before T-Day (plus the investment returns earned on these accumulated savings from T-Day onwards). The non-vested benefit comprises the retirement savings accumulated after T-Day (plus the investment returns).

At retirement, if two-thirds of the non-vested benefit plus 100% of the value of Retirement component is R247 500 or less, a member can take the entire benefit as a cash lump sum.

Under the two-pot system, these members' Vested component consists of the vested benefit and the non-vested benefit .

KEY TAKEAWAYS

The vested rights (shares) introduced by the T-Day reforms carry through into the two-pot retirement system. Members' rights in respect of their Vested component co-exist within the two-pot system.

Certain provident fund members' Vested components consist of a vested benefit and a non-vested benefit.

The investment returns earned on the vested benefit and the non-vested benefit will continue to be allocated to these respective shares.

No further contributions can be made to the Vested component from 1 September 2024. The exception is provident fund members who were 55 or older on T-Day who remain in the same provident fund and who elect not to join the two-pot system.