Two-pot retirement system

An overview of the three ‘pots’ – withdrawals before and at retirement

The two-pot retirement system will split retirement fund contributions (after expenses) from 1 September 2024 into two components: the Savings component and the Retirement component.

The new retirement system was called the two-pot system when the reform proposals were first published in 2021. This term is still used even though the word “pots” was changed to “components” in the final legislation.

Furthermore, people who belonged to a retirement fund before 1 September 2024 will have a third “pot”, the Vested component, which contains savings accumulated up to 31 August 2024.

Members of provident and provident preservation funds who were aged 55 or over on 31 March 2021 (T-Day) and who remained in the same fund are exempt from the two-pot system and their vested benefit remains unaffected, unless they choose to participate in the two-pot system. (Please refer to our separate brochure that explains how the two-pot system affects these members.)

SAVINGS COMPONENT

This component comprises:

- The "seed capital" taken from a member's accumulated savings (Vested component) valued on 31 August 2024.
- One-third of all retirement contributions (less charges and risk premiums) made from 1 September 2024, plus the investment returns earned on these contributions.

Additional voluntary contributions (AVCs): Members of occupational funds (funds provided through their employer) can make contributions in addition to their normal contributions. Under the two-pot system, a maximum of one-third of AVCs can be made to the Savings component.

Purpose of the Savings Component

The Savings component enables members of pension and provident funds to access some of their retirement savings before retirement without having to resign. Members of retirement annuity (RA) funds will now have access to a portion of their savings before the age of 55.

SEED CAPITAL

Seeding will ensure that members who want to access some money soon after 1 September 2024 will be able to do so. Seeding is once-off; it occurs only when the two-pot system is implemented on 1 September 2024. The "seed capital" is 10% of a member's accumulated fund value on 31 August 2024 and is capped at R30 000. The Savings component will be seeded by a once-off transfer of money from a member's accumulated retirement savings, as valued on 31 August 2024.

Note: Seeding is done automatically by the fund administrator.

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SAVINGS WITHDRAWALS

From 1 September 2024, members can withdraw money without having to resign from their occupational funds and while remaining a member of the fund.

- Members are not obliged to make a withdrawal.
- Withdrawals are limited to one per tax year.
- The minimum withdrawal is R2 000 (before charges or taxes are deducted).
- There is no withdrawal limit; members can take the entire amount in the Savings component.
- The retirement fund administrator may charge a fee to process a withdrawal.
- A member who has multiple retirement fund contracts (that is, belongs to different retirement funds) can make a withdrawal from each contract (fund) in a tax year.
- If a member terminates his or her membership of a fund and has already made a withdrawal within the tax year, the member can make an additional withdrawal in the same tax year only if the balance in the Savings component is less than R2 000.
- Members who emigrate can withdraw any money remaining in the Savings component if they have been a non-South African tax resident for three continuous years.

Pre-retirement withdrawals are taxed at the member's marginal income tax rate (personal income tax table).

Pre-retirement withdrawals reduce the cash lump sum you can take at retirement.

Members who withdraw all the money in their Savings Component before retirement will be limited to making a one-third cash withdrawal from their Vested component.

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FURTHER RESTRICTIONS ON PRE-RETIREMENT WITHDRAWALS

In terms of the two-pot legislation, restrictions can be placed on your ability to withdraw from your Savings component in certain circumstances.

You may be unable to withdraw from your Savings component if:

- You or your spouse has instituted divorce proceedings. The fund may deny access to your savings component until the court order is finalised.
- A court order states that a benefit may not be paid to you.
- Your employer has a judgment against you for damages arising from misconduct and your withdrawal will result in insufficient savings to meet that claim. Alternatively, your savings withdrawal benefit may be suspended for 12 months to allow your employer to institute such a claim.
- You owe maintenance to a former spouse or for your children, or there is a pending maintenance order and a maintenance investigating officer has issued written notification of the pending maintenance claim that may be instituted against your fund.
- You have a housing loan that is guaranteed by your fund benefits and withdrawing would not leave enough to repay the loan.

INTRA-FUND TRANSFERS

Members can transfer amounts from the Savings component to the Retirement component in the same fund. This transfer cannot be reversed.

WITHDRAWALS AT RETIREMENT

The options at retirement regarding any remaining benefits in the Savings component are:

- Withdraw the entire benefit as a cash lump sum; or
- Add the entire benefit to the Retirement component and use it to purchase an annuity, or
- Withdraw some of the benefit as a cash lump sum and add the remainder to the Retirement component.

Benefits withdrawn at retirement are taxed according to the retirement lump-sum table, where lump-sum withdrawals up to R550 000 are tax-free. The R550 000 tax-free limit is applied across all the funds to which a person belongs; it is not per fund.

The ability to take full advantage of the R550 000 tax-free withdrawal may be affected by:

- Pre-retirement withdrawals from the Savings Component.
- Lump sums taken from savings accumulated before the two-pot system was implemented (savings that will go into the Vested component).

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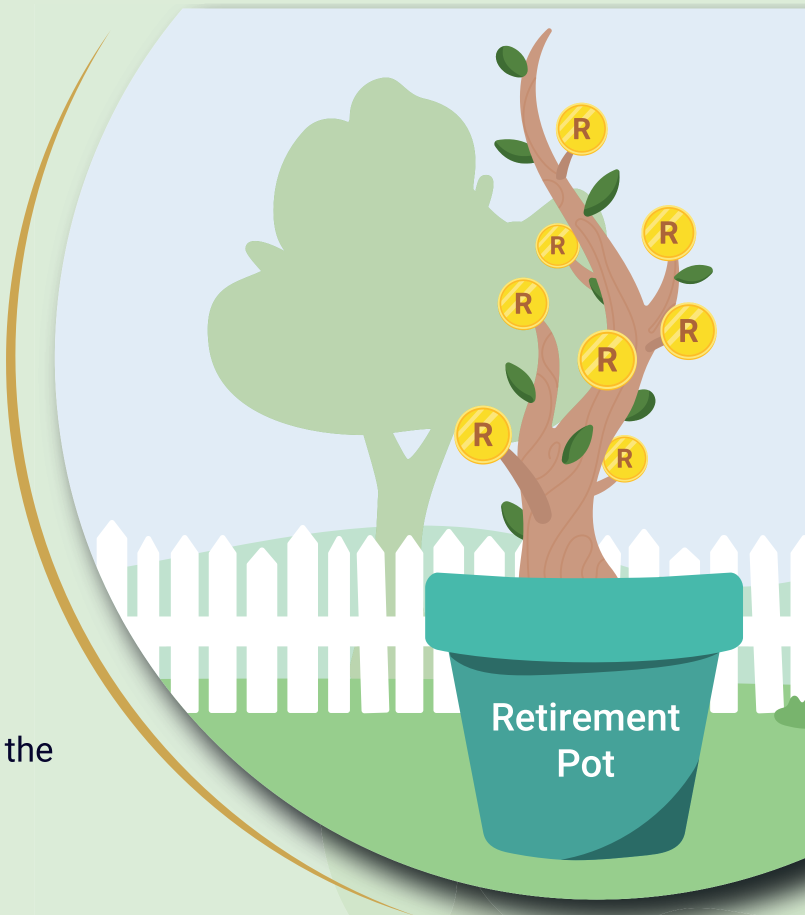
RETIREMENT COMPONENT

This component comprises two-thirds of all retirement contributions (less charges and risk premiums) made from 1 September 2024 onwards, plus all investment returns on these contributions.



Purpose of the Retirement component

The Retirement component ensures that the bulk of a member's retirement savings are preserved until retirement, so that the member can purchase an adequate annuity.

PRE-RETIREMENT WITHDRAWALS

The benefit cannot be accessed before retirement, even if a member is retrenched.

(Access to the Retirement component on retrenchment will be addressed during the "second phase" of the two-pot reform.)

INTRA-FUND TRANSFERS

No transfers can be made from the Retirement component into the Savings component in the same fund. Members can transfer amounts from the Savings component or the Vested component to the Retirement component. These transfers cannot be reversed.

WITHDRAWALS AT RETIREMENT

A member must use the entire benefit value in the Retirement component to purchase an annuity.
The exceptions that allow the member to withdraw the benefit in the Retirement component as a cash lump sum are:

- If 100% of the amount in the member's Retirement component plus two-thirds of the amount in the member's Vested component is R165 000 or less.
- If the member has ceased to be a South African resident for a continuous period of three years.
- If the member left South Africa on the expiry of a work or visit visa.

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VESTED COMPONENT

This component comprises a member's accumulated retirement savings as valued on 31 August 2024, plus the investment returns earned on these savings from 1 September 2024, less the amount allocated to the "seed capital". No further contributions can be made to this component from 1 September 2024.

Purpose of the Vested component

The Vested component protects members' rights that existed before the implementation of the two-pot system.

PRE-RETIREMENT WITHDRAWALS

Members have all the rights of access to the benefits in this component that they had before the implementation of the two-pot system. This means:

- **Pension and provident fund** members can take a cash lump sum in full upon termination of employment because of resignation, dismissal, or retrenchment.
- Members of **pension preservation funds and provident preservation funds** can make one partial or full cash lump-sum withdrawal before retirement.
- Members of **pension preservation funds, provident preservation funds,** and **RA funds** can make a cash lump-sum withdrawal:
  - On cessation of South African tax residence for a period of at least three years.
  - If the member is a non-resident, on the expiry of his or her South African visa.
  - In the case of an RA, if the member is medically disabled.
  - In the case of an RA, members can make a cash lump-sum withdrawal if the surrender value across all three components is less than R15 000.

Any cash lump-sum withdrawal benefits taken by the member will be subject to tax in accordance with the lump-sum withdrawal tax table (the first R27 500 is tax-free).

INTRA-FUND TRANSFERS

No transfers can be made from the Vested component into the Savings component in the same fund (except for the once-off seeding transfer). Members can transfer their accumulated benefit from the Vested component to the Retirement component. This transfer cannot be reversed.

WITHDRAWALS AT RETIREMENT

Pension funds and retirement annuity funds: Members can take up to one-third of the benefit as a cash lump sum. At least two-thirds of the benefit must be used to buy an annuity.

Provident funds: Members can withdraw as a cash lump sum whatever they have saved in a provident fund up to 1 March 2021, plus one-third of any savings in the Vested component between 1 March 2021 and 31 August 2024.

Members of provident funds who were 55 years or older on 1 March 2021 and have remained a member of the same provident fund can take their entire retirement benefit in cash when they retire unless they opt into the two-pot system. Please refer to our brochure on the two-pot system and provident fund members for more information.

Benefits withdrawn at retirement are taxed according to the retirement lump-sum table, where lump-sum withdrawals up to R550 000 are tax-free.

TRANSFERS BETWEEN FUNDS

Members can transfer their benefits from one fund to another only when they terminate their membership of a fund, leave their employer, or retire from the fund. Components cannot be transferred individually. All three components – Savings, Retirement, and Vested – must be transferred together from one fund to another. Each component retains its features when it is transferred.

DEDUCTIONS IN TERMS OF THE PENSION FUNDS ACT

Deductions permitted in terms of section 37D of Pension Funds Act are made proportionally from all three components: the Vested, Savings, and Retirement components. This applies to deductions such as housing loans, maintenance orders, divorce awards, and employer compensation orders.