

WHAT?

WHAT SHOULD I KNOW ABOUT THE TWO-POT SYSTEM?

1 1 September 2024 This is the proposed implementation date.

2 It's actually three pots



Vested

Your retirement savings up to 31 August 2024, i.e. your existing retirement fund savings. All the existing "old" rules apply, e.g. you may access retirement savings when you resign from your employment, you may make a one-off withdrawal before retirement (preservation fund members), and at retirement one third may be taken as a cash lump sum while two thirds must be used to purchase an annuity.



Savings

From 1 September 1/3 of your contributions go here.

There will be an opportunity to "seed" your savings pot with ten per cent, limited to R30 000, of your vested pot (as of 31 August 2024), which can be accessed immediately on the implementation date.

You may withdraw from your savings pot once per tax year – from a minimum of R2 000 to the full amount. For the purposes of SARS, the amount will be added to all your other income and taxed at your marginal tax rate (PAYE tax rates). You may also transfer money from the savings pot to the retirement pot tax-free. However, a transfer from the retirement pot to the savings pot is not allowed.



Retirement

2/3 of your contributions

No amounts may be paid to you out of this pot until normal retirement age, not even if you resign from your job or if you are retrenched.

On retirement, you must buy an annuity with the entire amount in the retirement pot. Amounts less than the minimum amount (of R247 500) in this pot may be taken as a lump sum which will be exempt from tax.

3 It's compulsory. The changes will apply to all retirement funds, including public sector funds such as the Government Employees Pension Fund and the Transnet funds. Certain so-called "legacy" retirement annuities will be exempt. (In general, legacy retirement annuities refer to policies – entered before 1 September 2024 – from life insurance companies that have additional features, such as universal life policies with life or lump-sum disability cover.)

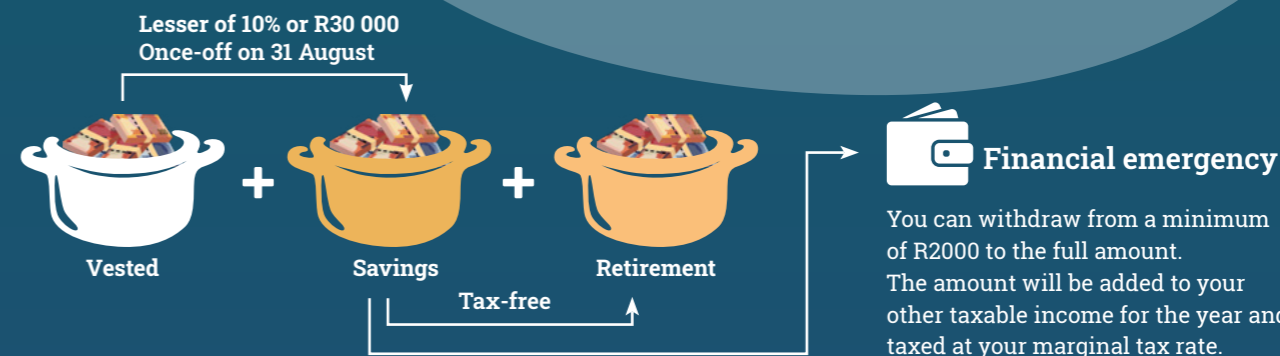
4 55 Plussers have a choice. Provident fund members who were 55 years and older on 1 March 2021 will, by default, be excluded from the two-pot regime. They must choose to opt in.

5 It remains one account



Cosatu is pushing for R40 000.

6 You will be able to transfer money between the pots. There will be a once-off transfer of ten per cent or R30 000 (whichever is lesser) of your accumulated retirement savings (or vested pot) as at 31 August 2024 to the savings pot, which can be accessed immediately on the implementation date.



7 You may not withdraw from the retirement pot until you reach normal retirement age, not even if you resign or if you are retrenched. When you retire, you have to buy an annuity (including a living annuity) with the full amount in the retirement pot, subject to the minimum amount required to buy an annuity as set out below. (If you die whilst a member of a retirement fund, the money in your retirement pot will be paid to your beneficiaries.)

There's one exception to the rule. If at retirement your total retirement savings are equal to or less than R247 500, you may take the whole amount in cash. This is called the R247 500 *de minimis* threshold which will be exempt from tax.

Let's explain:

At retirement Sibusiso has R150 000 in his vested pot and R60 000 in the retirement pot.



8 You still enjoy the tax benefits of being a retirement fund member. You can claim a tax deduction on these contributions, namely the lesser of R350 000 and 27,5% of remuneration or taxable income.

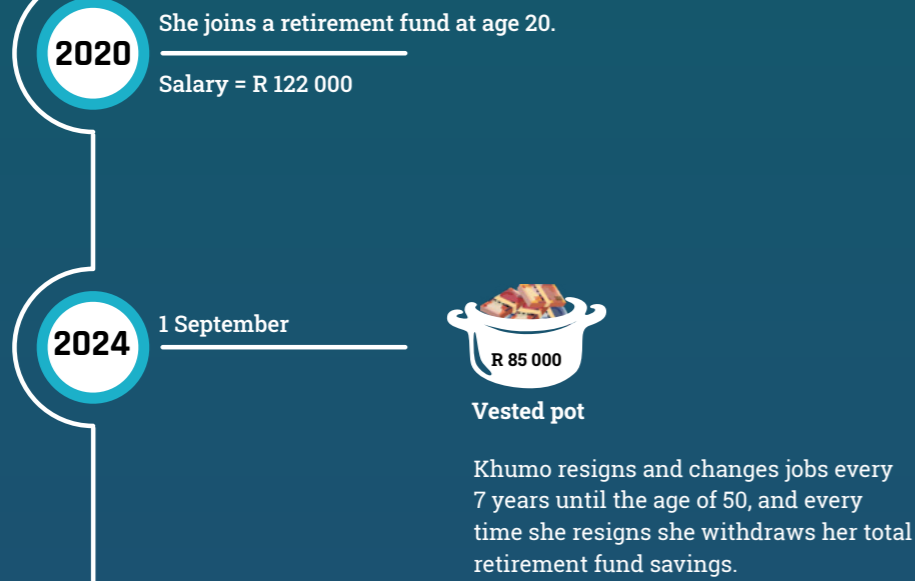
9 Think of your future self. Although the government has made these changes to give members access to savings before retirement, it is never in your best interest to withdraw monies from your retirement fund before your retirement. You will be paying tax on the amount you withdraw and have less cash *and* income when you retire. It is recommended that you keep all your retirement savings invested for retirement, including any savings in your savings pot.

The two-pot system is not a golden bullet and cannot solve all our financial woes. Its effectiveness depends on members' focus and discipline when it comes to saving, as well as the period they are obliged to contribute two thirds of their monthly contributions to the retirement pot. Let's look at two scenarios:

Meet Khumo



For this example, we assume the following:
 An annualised investment return of 11%
 A contribution rate of 11%
 Salary growth of 3%



Scenario 1
Khumo takes seed capital from the vested pot on 31 August 2024 and withdraws from the savings pot every year.

R8,6 million

Scenario 2
Khumo withdraws from the savings pot only.

R14,8 million

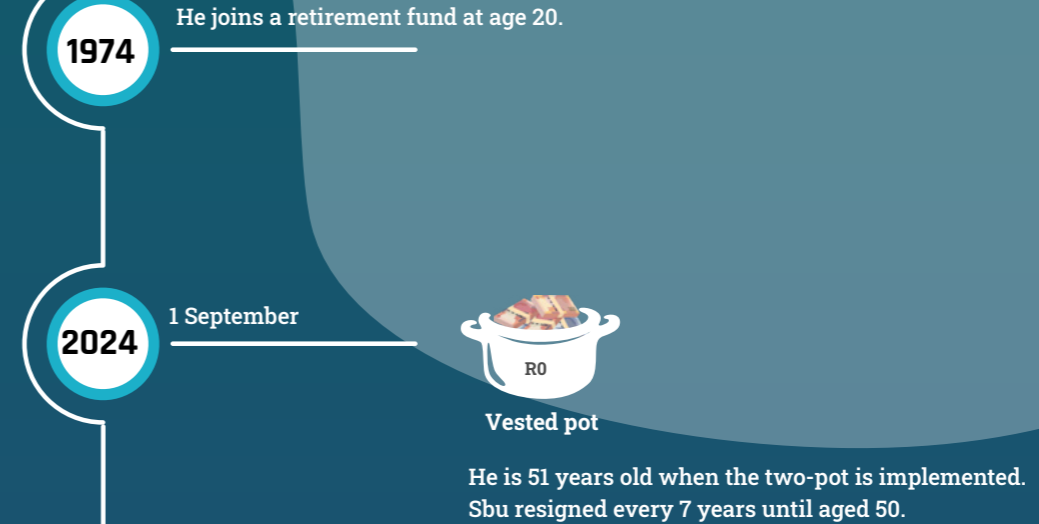
Scenario 3
Khumo preserves all her assets.

R19 million

Meet Sbu



We assume:
 An annualised investment return of 11%
 A contribution rate of 12%
 Salary growth of 3%



At retirement Under the two-pot system

Scenario 1
He stops resigning and cashing out his retirement savings, but continues to withdraw from the savings pot.

R1,4 million

That is a stark difference from the R19 million he would have saved had he been fully preserving throughout his career.

Scenario 2
He stops resigning and cashing out the savings pot and preserves all his assets until retirement.

R1,7 million

Even if Sbu preserves his savings pot it doesn't make much of a difference. Sbu's situation reflects that of many current, especially older, members of retirement funds. His case illustrates an important point: The best way for Sbu and Khumo to ensure a comfortable retirement – and ultimately the success of the two-pot system – is to make long-term contributions to the forced preservation retirement pot, which cannot be accessed before reaching retirement age.

This infographic is based on a similar one in the [2023 Sanlam Benchmark Insights Report](#).

REFERENCES

- [BDO South Africa: More tweaks for the two-pot](#)
- [Moonstone Information Refinery: GEPF and other public sector funds 'will be part of the two-pot system'](#)
- [National Treasury: Publication of the draft legislation for the "two-pot" retirement system for public comment](#)
- [Old Mutual: Two-Pot guide for employers, HR practitioners and intermediaries](#)
- [Momentum: Legal update 4 of 2023: The impact of the new two-pot retirement system](#)