

Two-Pot Retirement System: Will it apply to our retirement savings that have already been accumulated?

According to the current draft, the two-pot system will not be applied retrospectively, i.e., members will not be able to access one-third of their retirement savings accumulated to date. As the two-pot system will not apply retrospectively, members of pension and provident funds, on resignation, will therefore, be allowed to access their full fund value that has been accumulated up to 01 March 2024, plus interest.

The primary purpose for introducing the two-pot system is to address two issues:

1. Currently, members of provident and pension funds can withdraw the full fund value on resignation from their employer. This results in significant retirement saving shortfalls.
2. People in financial difficulty, and who have funds available in retirement products, are unable to access these funds no matter how desperate their circumstances are. This results in some people resigning from their employment just to access their pension or provident fund. Some of these people do not have the luxury of thinking about their retirement when their current financial circumstances are so dire.

On the one hand, there is a need for more retirement fund preservation, but on the other hand, there is a need to allow people to gain access to their retirement fund without jeopardizing their employment. These two issues seem to be at odds with one another.

The two-pot system will address both issues simultaneously and should achieve a fair balance between enhancing retirement fund preservation and allowing accessibility to a portion of one's retirement savings for emergencies.

Although it is called the Two-Pot System, it may be helpful thinking about it as "3 pots" as depicted below:



The Savings Pot

- From 01 March 2024, one-third of the contributions to a retirement fund will be allocated to the savings pot.
- Withdrawals from this pot can be made once a year, with the minimum withdrawal being R2,000.
- Pre-retirement withdrawals from the savings pot is added to the member's taxable income for that year.
- At retirement, any balance remaining in the savings pot will be taxed as a retirement lump sum payment and subject to the Retirement Tax Tables, i.e., where the first R550,000 is tax free.
- Transfers from one savings pot to another savings pot is possible and the transfer is tax-free.

The Retirement Pot

- From 01 March 2024, two-thirds of the contributions to a retirement fund will be allocated to the retirement pot.
- The retirement pot cannot be accessed before retirement age which, as per the Pensions Funds Act, is currently 55.
- The full balance in the retirement pot must be used to purchase an annuity at retirement.
- If the balance of the retirement pot is R165,000 or less, then a full withdrawal is possible.
- Transfers from one retirement pot to another retirement pot is possible and the transfer is tax-free.
- Should an individual cease to be a tax resident for an uninterrupted period of three years, or departs South Africa at the expiration of their visa, they will be allowed to make a full withdrawal from their retirement pot. Such withdrawal will be taxable as a retirement fund lump sum withdrawal benefit as per the tax table below:

Retirement fund lump sum withdrawal benefits

Taxable income (R)	Rate of tax
1 - 27 500	0% of taxable income
27 501 - 726 000	18% of taxable income above 27 500
726 001 - 1 089 000	125 730 + 27% of taxable income above 726 000
1 089 001 and above	223 740 + 36% of taxable income above 1 089 000

The Vested Pot

- This is the retirement fund value up until 01 March 2024 plus the growth on this fund value going forward.
- As the two-pot system will not apply retrospectively, the vested pot will not be impacted by the new rules of the two-pot system.
- The vested pot can be fully withdrawn on a pre-retirement resignation from an employer and will be subject to the same tax table provided above.
- Fund balances in retirement annuities that form part of the vested pot will not be accessible until age 55, as per current legislation.

If you wish to discuss the above, please contact your financial adviser at Gradidge-Mahura Investments or send an email to info@gminvestments.co.za and we will get someone to contact you.