TWO-POT SYSTEM FOR RETIREMENT SAVINGS

OLD MUTUAL
EMPLOYEE GROUP IN SUPERFUND

From 1 March 2024, the new Two-Pot system is proposed to come into effect in South Africa. It will allow Members who qualify access to a small portion of their retirement savings. Importantly, it will also help protect retirement savings for retirement.

This is how the Two-Pot system will work:

- **You will be able to access a component of your savings before retirement without having to resign from your job. This is intended to help you in times of unforeseen financial emergencies, such as retrenchment.**
- **The remaining component will be "preserved", meaning you will have to keep the majority of your retirement savings invested until you retire.**

WHO WILL BE AFFECTED?

Two-Pot will affect all types of retirement funds – i.e., pension funds, provident funds, retirement annuity funds, and preservation funds. Provident fund Members who were 55 years or older on 1 March 2021 will have the option to continue with the current system or to adopt the Two-Pot retirement system.

WHAT'S NEW?

In June 2023, National Treasury released draft regulations that will apply to this system. Let's take a look.

Name change from "Pot" to "Component"

In the proposed regulations, the word "pot" is replaced by "component". For example, the Savings Pot will now be called the Savings Component. "Pot" is, however, still used conversationally.

There will be a once-off transfer into your Savings Component

On 29 February 2024, 10% of what you will have in your retirement savings (Vested Component) will be transferred to your Savings Component. This will be limited to a maximum of R25 000. This transfer is called the 'seed capital'. It is a one-off transfer that will allow you to have an opening balance in your Savings Component. Thereafter, one-third of your future retirement fund contributions will be allocated to the Savings Component.

Withdrawals can take place once per year of assessment

You will only be able to withdraw from your Savings Component once per year of assessment. The year of assessment starts on 1 March every year and ends on 28/29 February. So, if you withdraw on 5 March 2024, you will have to wait until 1 March 2025 to withdraw again.

HOW YOUR RETIREMENT SAVINGS WILL BE SPLIT

From 1 March 2024, your retirement fund contributions will be split into three Components:

- On 29 February 2024, 10% of your Vested Component value will be transferred to your Savings Component. It will be capped at R25 000.
- **One-third** of your future retirement fund contributions will be allocated here and should grow with investment returns.
- You can access this Component before retirement. You will be charged a transaction fee for each withdrawal to cover administration costs.
- Withdrawals can happen only once per tax year between 1 March and 28/29 February.
- The withdrawal is set at a minimum of R2 000. The maximum amount will be your balance available in this Component.
- This Component is designed to be your lump sum at retirement. Any amount you withdraw before your retirement will reduce your lump sum.
- Any amount from your Savings Component paid out upon your retirement or death will be taxed at the current retirement fund lump sum benefit scales.
- If you withdraw from your Savings Component prior to your retirement or death, it will be taxed at your marginal tax rate.

- **Two-thirds** of your future retirement fund contributions will be allocated here and should grow with investment returns.
- This Component can only be accessed on death or at retirement.
- This Component will travel with you for the rest of your working lifetime and no withdrawals will be allowed before retirement.
- When you retire, the total amount here must be used to purchase a pension, which will provide you with a regular income after you retire.

- Your existing retirement fund contributions, minus the amount transferred to your Savings Component, will remain in this Component and should grow with investment returns.
- The current access rules shall apply. i.e., you can still access this Component if you leave your Employer before retirement.

LET'S LOOK AT TWO EXAMPLES BELOW

JAMEEL

Jameel is 30 years old and has R50 000 in his retirement savings. On 29 February 2024, 10% of his retirement savings (R5 000) will be transferred to his Savings Component as an opening balance. This will leave him with R45 000 in his Vested Component.

When Two-Pot is implemented, Jameel can do the following with the R5 000 in his Savings Component:

a. **Withdraw it (subject to tax).**
b. **Let it continue to grow. He can access it once per year of assessment for future emergencies.**
c. **Avoid withdrawing it until retirement. At retirement he can choose to receive it as a lump sum (subject to tax) or add it to his Vested and Retirement Component to purchase a pension.**

When Jameel reaches retirement, he can:

a. **Use the sum of his three Components to purchase a pension.**
b. **Take all or some of his Savings Component as a cash lump sum (subject to tax) and use his Retirement Component to buy a pension.**
c. **If the amount of his Vested Component that must be annuitised plus his Retirement Component is less than R165 000, he may withdraw the full amount.**

JOSEPHINE

Josephine is 40 years old. She currently has R150 000 in her retirement savings.

She changes jobs in January 2024 and withdraws all her retirement savings. She must now start saving from scratch.

By 1 March 2024, she has R4 000 in her retirement savings. 10% of this amount (R400) will be transferred to her Savings Component on 29 February 2024.

Josephine wants to withdraw from her Savings Component for an emergency in March 2024. She won't be able to as the minimum withdrawal amount is R2 000, and her balance is less than this (R400).

In August 2024, Josephine has an emergency. The balance in her Savings Component is now R2 500 so she withdraws R2 000 from her Savings Component. She cannot make another withdrawal until 1 March 2025.

Josephine is borrowing from her future self – the R2 000 she withdraws in August 2024 means she'll get R2 000 (plus compound interest) less as a lump sum at retirement.

FAQ

If I've already made a withdrawal from my Savings Component in the year of assessment and resign from service, can I withdraw again?

No, you cannot. Withdrawals are limited to **once per year of assessment**. For example, if you withdraw from your Savings Component on 30 March 2024, you'll only be able to do so again on 1 March 2025. However, there is an exception for Members who resign and have a Savings Component of less than R2 000.

What tax rules will apply to withdrawals?

If you withdraw from your Savings Component prior to your retirement or death, it will be taxed at your **marginal tax rate**. Your fund's administrator will pay the tax to the South African Revenue Service (SARS) before you receive your money.

Will Two-Pot be a good thing for South Africans?

Yes. Estimates suggest that less than 10% of South Africans can maintain their standard of living after retirement and for the rest of their lives. Two-Pot enables people to protect their retirement savings during their working life and save it for their retirement years.

Preservation is key

Every withdrawal from your Savings Component will reduce the amount you get as a lump sum at retirement. Remember to save as much as you can for as long as you can!