# Parliament's Finance Committee insists that the new two-pot system be implemented on 1 March 2024

23 November 2023

On 21 November 2023, in Parliament, the Standing Committee on Finance rejected National Treasury's proposal to postpone the implementation date of the Two-pot system changes to 1 March 2025. Unless Parliament eventually votes otherwise, the proposed changes will thus come into effect on 1 March 2024 as originally planned.

## Background

Since 2012, the South African retirement fund regime has been undergoing fundamental reforms. Many of these reforms have already been implemented, most notably the preservation of retirement savings at retirement through annuitisation which came into effect on 1 March 2021 (commonly referred to as T-day). One of the proposals that has not yet been implemented is pre-retirement preservation. Currently, members of pension and provident funds can access the benefits in full when they cease employment. Similarly, members of preservation funds have the right to make a once-off withdrawal from these funds.

In essence, Treasury wants to address two primary concerns with the current retirement fund regime, namely:

1. The lack of preservation before retirement; and
2. The inaccessibility of retirement benefits during times of economic hardships, as highlighted during the COVID-19 pandemic.

In July 2022, Treasury published a first draft bill which attempted to address these concerns. The draft bill proposed the creation of two new "pots" (a retirement pot and a savings pot), hence the naming convention. In June 2023, an updated draft was published which replaced the term "pot" with the concept of "component". The essence of the proposals, however, remained the same and the industry continued referring to the said reform as the two-pot system changes.

In a nutshell, it is proposed that as of 1 March 2024 all funds will consist of three components, being:

- a vested component,
- a retirement component and
- a savings component.

The accumulated retirement benefit (as at 29 February 2024) will form the vested component and the current retirement regime will continue to apply to this component. No further contributions can be made to the vested component after the effective date of these changes, except for members of provident and provident preservation funds who were 55 years or older on 1 March 2021, and remain members of the same fund they were members of on 1 March 2021. All contributions made on or after 1 March 2024 will be split as follows – one-third to the savings component with the remaining two-thirds to the retirement component.

Members will be allowed to make one withdrawal per tax year from the savings component (subject to prescribed minimums). Contributions to the retirement component cannot be accessed prior to retirement.

## The implementation date

The retirement industry has, from the outset, voiced its concern with regards to the implementation date of 1 March 2024. Fund administrators will have to make significant changes to their IT systems to accommodate the new regime. In addition, both SARS and the FSCA will need sufficient time to ready itself. Similarly, fund rules will need to be amended to ensure alignment with the amended legislation and members will also have to be adequately informed about these changes.

A revised Revenue Laws Amendment Bill (which followed Treasury's draft response to comments on the previous version of the Bill) was accordingly published on 1 November 2023. In terms of the revised Bill, it was proposed that the implementation date of the two-pot system changes be postponed to 1 March 2025.

The industry breathed a sigh of relief. However, the respite has been short-lived.

On 21 November 2023, when the revised Bill was being read in Parliament, the chairperson of the

Standing Committee on Finance queried the new implementation date. Despite Acting Head for Tax and Financial Sector Policy, Chris Axelson's explanation of the need for this postponement, the MPs remained unconvinced, and it was agreed by the Committee that the implementation date must remain 1 March 2024.

## Next steps

When a Parliamentary Committee changes a proposed law, they are required to provide the Minister of Finance with an opportunity to respond thereto. Once received, the Standing Committee on Finance will consider his response and make their final decision regarding the implementation date. The National Assembly will then vote on the final amendment bill as tabled by the Standing Committee on Finance.

## Conclusion

This unexpected turnaround at the 11th hour will undoubtedly cause headaches for administrators and funds alike. To make matters worse, the industry is now expected to finalise implementation of these changes without final legislation as the Revenue Laws Amendment Bill is only expected to be concluded by the end of December 2023 or early January 2024.

Although the Minister of Finance cannot override the Committee's decision, one can only hope that his response will convince the MPs to agree to the postponement.



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