

What to know about the two-pot system when you resign from your retirement fund at work.

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The two-pot retirement system, which is currently expected to come into effect on 1 September 2024, will bring about major changes to the retirement landscape and the rules governing retirement funds. In this article, Palesa Mokoena, Technical Support Specialist at Glacier Business Development, specifically considers the access that members of defined contribution occupational retirement funds (pension and provident funds) in the private sector, will have to their retirement savings when they resign from their employer under the new system. The details about the two-pot retirement system are based on our current understanding of the proposals in the 2023 Draft Amendment Bills. Some aspects may change prior to the finalisation of this legislation.

The current rules

Under the current rules, when a member of a pension or provident fund resigns from their employer, the member can opt to preserve their retirement savings in the employer fund as a paid-up member or in a preservation fund of their choice. Alternatively, the member can cash out the full value in the fund. Should a member choose to cash out the funds, such a withdrawal is taxed according to the withdrawal tax table with the first R27 500 being taxed at 0%.

Historically, many members have chosen to withdraw from their funds upon resignation, with some even choosing to resign from their jobs just to access their savings in a provident or pension fund in times of hardship. These trends have contributed to the insufficient levels of retirement savings amongst the majority of South Africans at retirement. As a result, we now have the proposed government interventions, which are aimed at:

- addressing the issue of members depleting their retirement savings before retirement,
- providing members limited access to retirement savings before retirement without needing to resign, and
- encouraging long-term preservation.

The proposed new rules

Under the proposed system, the member's options at resignation will change. From 1 September 2024, pension and provident members who resign from their employer will still be allowed to take the full value of their vested component. Regarding the rest of their savings outside of the vested component, at resignation they will only be allowed to withdraw the value of their savings component if they have not already made a withdrawal from this component in the prevailing tax year or if the remaining value of this component is less than R2 000. Importantly, these members will not be able to withdraw any retirement savings that are in their retirement component at the time of resignation, as this component must be preserved until retirement. This means that going forward, members will no longer be able to cash out 100% of their pension/provident fund savings at resignation.

Any resignation withdrawal from the vested component will be taxed according to the withdrawal tax table, whereas any resignation withdrawal from the savings component will be taxed at the member's marginal income tax rate.

What to consider before cashing out at resignation.

Below are some answers to the questions members may have if they consider cashing out all the available funds from the vested component and the savings component at resignation:

1. Why can't I take all my retirement savings money when I leave my employer?

Under the two-pot retirement system a portion of your retirement savings linked to your contributions from 1 September 2024 will not be accessible until retirement. This portion will be preserved and will ensure that you will have some savings for retirement.

2. What will happen to my remaining retirement component when I resign from my employer?

Subject to the Fund rules, members may be permitted to stay in the employer fund as a paid-up member and retain the remaining retirement component with the employer pension/provident fund until retirement. Alternatively, a member can transfer their retirement component tax-free to a preservation fund of their choice.

3. Will I be allowed to make a withdrawal from the retirement component if I transfer it to a preservation fund?

No, the retirement interest in the retirement component will only be accessible at retirement or upon emigration (three years after cessation of tax residency), disability or death.

4. Will I be allowed to take a portion of the remaining retirement component in cash at

retirement?

No, upon retirement the member will have to purchase a compulsory annuity with the full value of the retirement component unless the value falls below the legislated limit.

5. How will the withdrawal I take at resignation impact the tax I have to pay on future retirement cash lump sums?

A withdrawal from the vested component will be taken into consideration when calculating the tax on future retirement cash lump sums, as the retirement fund lump sum tax tables are subject to the principle of aggregation.

Any annual withdrawal or resignation withdrawal made from the savings component will be taxed in that tax year at marginal tax rates; however, these withdrawals will not be considered for the principle of aggregation with regard to future retirement cash lump sums.

Resigning to get access to your retirement savings is a thing of the past.

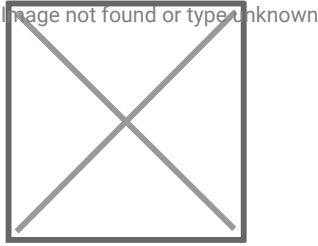
The resignation rules under the two-pot retirement system present a major change for members of pension and provident funds who have become accustomed to the current system which allows for full withdrawals each time they change jobs or leave their employer. Many members may not be familiar with the concept of preservation and the workings of preservation funds. Members who resign from their employer will therefore require financial education and support from their employers, funds and financial advisors in order to navigate their options under the two-pot retirement system, understand the implications for retirement savings and make an informed decision.

To read more about the two-pot retirement system and the latest retirement reform insights, you can visit the Glacier Insights [Retirement Reform](#) page.

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Palesa joined Glacier as a Technical Support Specialist in the Business Development team in May 2021, focusing on investments and financial planning. Her role involves supporting the competency and expertise of Glacier's Business Development team through mainly digital engagement platforms and creating financial planning content. Before Glacier, Palesa worked for Allan Gray for four years. Palesa has obtained the following qualifications: • Bachelor of Business Science Degree in Finance & Accounting, University of Cape Town, 2015 • Postgraduate Diploma in Tax Law, University of Cape Town 2016 • Postgraduate Diploma in Financial Planning (CFP®), University of Stellenbosch Business School, 2020.

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