Sanlam

What we know about

Two-Pot Retirement System

Introduction

The National Treasury has proposed plans for a new fund structure that will protect your retirement savings. You are likely to get immediate access on 1 March 2024 to 10% of your existing retirement fund savings on 29 February 2024, up to a maximum of R25 000. We will use this value to ‘seed’ the savings part of your fund in March 2024.

The **draft legislation proposes** that all retirement funds – including retirement annuities (RAs) – set up a savings component and a retirement component from March 1, 2024. The two-pots have now become three components, ie. vested, savings and retirement component. **This is not yet legislation. There might be further changes, but below we share the situation as it is currently proposed.**

Savings Component

One-third of premium contributions from 1 March 2024.

One withdrawal allowed within a tax year.

Minimum withdrawal of R2000.00 applies and taxed according to marginal/income tax rates

Seeding

10% of your existing retirement fund savings up to a maximum of R25 000 will be made available in the savings component on 1 March 2024.

Retirement Component

Made up of two-third of premium contributions from 1 March 2024.

No pre-retirement withdrawal allowed.

Benefit must be preserved until retirement.

Vested Component

Lump sum withdrawals will remain subject to the retirement fund withdrawal tax table.

Vested Component consists of the vested and non-vested values as on 29 February 2024.

Vested Value
(Protected Provident Fund rights)

Member <55 as on 1 March 2021:
Value of funds originating from your Provident or Provident Preservation fund up until 28 February 2021.

This total benefit plus growth thereon will be available as a lump sum payment at Retirement.

Member >55 as on 1 March 2021:
Total value of the Provident Fund or Provident Preservation fund as on 1 March 2024 plus growth and contributions made thereafter will be available as a vested value.
Only if you stay in the same fund until you retire.

Members have the option on a Provident Fund on whether to participate in the Two-pot system, whereby future contributions from 1 March 2024 will then still form part of this value.

Non-Vested Value
(Non-Protected Provident Fund rights)

All contributions from 1 March 2021 (and future growth) will be in this portion.

At retirement you may take a maximum of 1/3 in cash (less tax), the rest must be used to purchase an income.

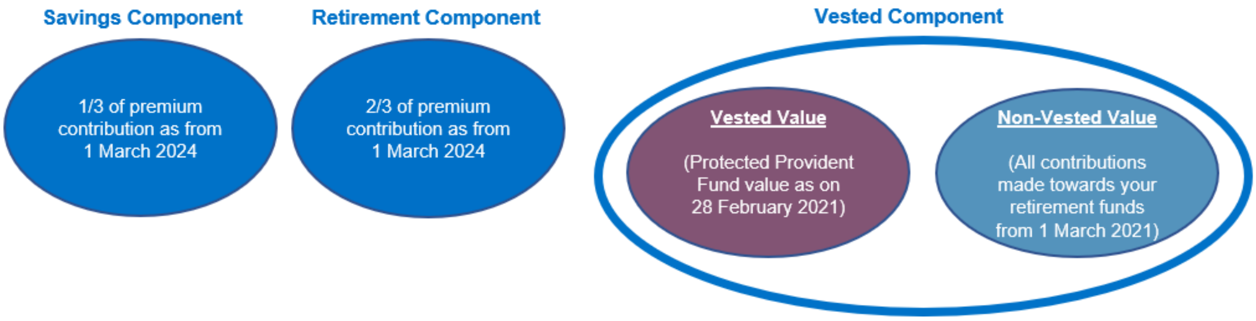
R165 000 commutation rules will apply to the 2/3’s of this value in the fund plus the value in the retirement component. This rule determines whether a full lumpsum will be allowed at retirement. If the total value of this calculation is higher than R165 000, the member must purchase an income.

Non-vested is not applicable to members who were 55 as on 1 March 2021.

Highlights of proposals in the revised draft

- Phase one will be implemented on 1 March 2024.
- Members are not losing any existing rights. A member's retirement interest on 29 February 2024 will be allocated to the new vested component but will keep its current vested or non-vested nature in terms of the annuitisation dispensation concerning provident funds from 1 March 2021.
- New contributions from 1 March 2024 will be split between the savings and retirement components, except for provident fund members over the age of 55, who may elect to contribute to the vested component instead of the savings and retirement components.
- Growth and returns stay in the component in which they are earned.
- Seeding of the savings component has now been confirmed, and in essence, allows this component to be stocked or filled with money to enable immediate access on 1 March 2024, with the seeding up to a limited value. The vested retirement interest of a member on the day before implementation can therefore 'fund' the savings component up to a set maximum. The allowable seed capital is the lesser of 10% of the accumulated retirement interest in the vested component (29 February 2024) or R25 000.
- At retirement a member can take the balance of the savings component together with the vested value within the vested component, in cash. This amount will be taxable as a retirement lump sum benefit, subject to the retirement lump sum tax table.
- After 1 March 2024, a member may at any time, within the existing fund or when transferring the benefit to another fund, transfer the savings component and or the vested component to the retirement component. You cannot transfer only a portion or part of a component and transfers from the retirement component to the savings or vested components are not allowed.
- A member may make one withdrawal per tax year out of the savings component (only this component) that is then taxed at the marginal rates of the member. The withdrawal value (savings withdrawal benefit) will form part of your annual taxable income and it currently looks like the withdrawal will be paid to the member after tax is paid over to SARS as per a tax directive.
- Deductions from a member's pension interest in terms of a divorce court order is still allowable, but it seems to not be proportional from all components – only from the vested and retirement components. This might be something to watch in the commentary process and ultimate legislation.
- The members of provident funds who were 55 or older on 1 March 2021, and are still members of the same fund, will have a choice about whether to contribute to the vested component instead of the savings and retirement components. If they do not choose to contribute to the vested component, they will only contribute to the savings and retirement components. Comments on the draft legislation is to see if the choice can't be the other way around (to stay in the vesting component unless chosen not to). The draft legislation proposes a once-off choice and clarity is sought about by when the choice must be made.
- Legacy retirement annuity fund policies are exempt from the reform. Legacy policies available in retirement annuity funds are, for this purpose, policies entered into before 1 January 2022, where the policy conforms to the particular characteristics provided for in the draft legislation.
- Allowing members to also withdraw from the retirement component, and not only the savings component when they are retrenched and have no alternative source of income, will be considered in phase two of the reform. It seems that there may in any event be more to the second phase, as mention is made of measures to ensure the savings culture is not compromised and to protect the liquidity of the retirement funds themselves.

- Everything in the retirement component must be annuitised at retirement, except if two-thirds of the members share relating to the vested component (minus the T-Day protected provident rights / vested value) and full retirement component falls below R165 000 (current) in the fund, in which case the member may choose to rather take a lump sum/full commutation.



In addition to the draft Revenue Laws Amendment Bill, the draft Revenue Administration and Pension Laws Amendment Bill were also published on 9 June 2023 and contains the necessary amendments to the Pension Funds Act to enable the three-component system.

How to prepare for a comfortable retirement

In order to prepare for a comfortable retirement with the implementation of the three-component retirement reform, it will be important to do the following:

- If possible, increase your monthly retirement savings, especially if you have done a withdrawal from your retirement plan. The sooner you contribute and the longer you save, the more you will benefit from the power of compound interest.
- It is important to set up an emergency fund separate to your long-term savings, to cover your expenses for at least three months. Emergency funds create a financial buffer that can keep you afloat in a time of need. It helps you avoid relying on other forms of credit or losses to cover these expenses. This will also help you to avoid dipping into your retirement savings.
- Consult with an accredited financial adviser. It is important to assess your financial needs and goals and to draw up a financial plan and budget. A financial adviser will be able to answer all your questions regarding the new retirement fund system, and can also advise on how to set up your short and long-term savings and investment options, that suit your specific needs.

Last words

Once again, please note that the above is how we understand it currently, and can change when the final legislation is approved.

Although the proposed new legislation will allow you to dip into your retirement savings, you should only do so as a last resort to ensure you are well prepared financially for retirement.