

# The two-pot retirement system



To ensure that retirement fund members save enough for retirement and that their savings are protected, government has been reviewing and changing the laws that control the retirement fund industry over the last few years.

## What is the two-pot retirement system?

The latest retirement reform change proposed by government is the introduction of the two-pot retirement system which will give rise to a massive change in the retirement landscape. The new two-pot retirement system aims to address the need for greater preservation of retirement savings whilst also providing members with limited access to a portion of these savings, before retirement, in cases of emergency.

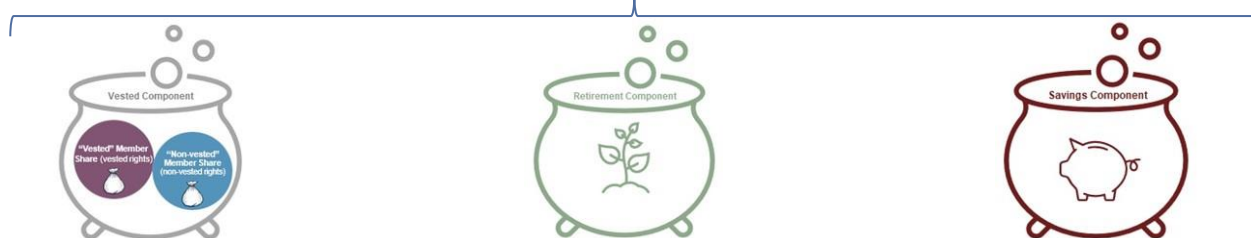
The final legislation is not yet available and the below depicts our current understanding as of December 2023. All information speaks to the generic changes and not to any Fund specific implementation of the new rules.

## How will the two-pot retirement system work?

The proposed implementation date for the two-pot retirement system is 1 September 2024 and the new system will apply to all retirement funds i.e. pension, provident, retirement annuity and preservation funds.

From 1 September 2024, a member's existing retirement interest and their future contributions will be split into the following three components: the **VESTED COMPONENT**, the **RETIREMENT COMPONENT** and the **SAVINGS COMPONENT**.

### ONE CONTRACT IN A FUND



The **VESTED COMPONENT** will consist of all contributions and growth accumulated in the retirement fund on 31 August 2024 (less the amount allocated to the savings component).

**No new contributions:** No new contributions will be allowed into the vested component from 1 September 2024\*.

**Current rules to apply:** The current rules that govern these benefits will still be applicable to the retirement interest in the vested component.

**Retention of existing vested rights:** The current vested and non-vested rights as per the annuitisation of provident funds from 1 March 2021 will still apply.

The **RETIREMENT COMPONENT** will consist of two-thirds of a member's contributions from 1 September 2024.

**Compulsory preservation:** The retirement interest in the retirement component will only be accessible at retirement or upon emigration (three years cessation of residency), disability or death, subject to the applicable Fund rules.

**Compulsory annuitisation:** 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.

The **SAVINGS COMPONENT** will consist of one-third of a member's contributions from 1 September 2024.

**Seeding:** An amount equal to 10% of a member's vested component on 31 August 2024, limited to R30 000, will be allocated to the savings component. This will enable access as of 1 September 2024.

**Annual withdrawals:** Members will be allowed one withdrawal of at least R2 000 from the savings component per tax year (1 March to 28 February).

**Tax:** Withdrawals will be included in gross income and taxed as part of a member's taxable income.

\* The members of provident/provident preservation 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 partake in the new regime or not. If they choose not to, they will continue contributing to the vested component.

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