A message from the Board of Trustees of our retirement funds

A message from the retirement fund Chief Principal Officer

Johan Hein - Retirement Fund Principal officer

As a member of the Personal Portfolios suite of Funds you will by now be aware that the so-called Two-Pot Retirement System has been given the green light and will come into effect on 1 September 2024.

The “two-pot” is a reference to how retirement savings will be separated to allow you to access a cash portion while preserving the greater part of your retirement savings. Suffice it to say that the fundamental idea behind the new system is that in time, South Africans should start retiring with more retirement money. It is hoped that the new system will provide a better outcome for members of retirement funds generally, than what is currently being experienced.

Please ensure that you consult the details and explanations of the new system on the rest of this information hub.

As someone who has voluntarily preserved your retirement fund capital in the past and/or made voluntary contributions into your retirement annuity fund, you have clearly put much thought into your retirement planning. The Board of Trustees commend you for your past actions which prioritised saving for your retirement. We urge you to continue to seek professional advice and think very carefully before accessing your retirement fund savings as you have done until now.

From an administration system perspective, The Board would like to assure you that they are fully behind the administrator in implementing the required system changes in the best interest of you as a member. There is no action required from you as a member at this stage and the Board will continue to execute their fiduciary duties to the Funds and you as a member, to the best of their abilities. As always, you are welcome to approach us should you have any concerns or burning questions regarding the funds that you have entrusted to us.

The retirement savings culture of South Africans first started attracting the attention of the authorities in the 90s, although there are references of discussions on the topic being had as early as the 80s. This led to a focus in legislation during the 2000s where the intention was to protect retirement fund members from themselves in order to better secure their own retirement years. This strategy is known as the Retirement Reforms in South Africa.

As National Treasury explains, the dilemma with the current retirement regime is that individuals are able to make full withdrawals from their pension or provident fund when they cease employment, and they can also make once-off withdrawals from their pension preservation or provident preservation fund(s). These withdrawals are taking place irrespective of the tax rates applied upon withdrawal, and leaving South Africans high and dry when it comes to capital to provide an income during retirement. The main reasons for the new system are simply this lack of pre-retirement preservation and then the financial distress of households in the case of emergencies and hardship.

A message from the retirement fund Chairperson

Elsjemar Bronn - Retirement Fund Chairperson

The 2023 Draft Revenue Laws Amendment Bill incorporates the proposals for the “Two-pot” retirement system which should take effect on 1 September 2024. If implemented as planned, retirement funds will, on or after 1 September 2024, be required to create 3 components, i.e. the vested component, retirement component and savings component.

Vested and non-vested rights that arose as a result of the annuitisation reform which came into effect from 1 March 2021, will be retained. The rules that apply under the current regime relating to vested rights in the “vested component”, will therefore continue to apply after the implementation of the “Two-pot” regime. Retirement funds will be required to value a member’s retirement interest immediately prior to implementation date, as the retirement interest will be subject to the current retirement regime.

Members will be required to contribute an amount equal to two-thirds of the total individual retirement fund contributions to the “retirement component” under the new system. These two-thirds will be required to be preserved until retirement. The entire “retirement component” must be used to purchase an annuity when the member retires, subject to certain exceptions.

One-third of the total retirement fund contributions will be allocated to the “savings component”. Contributions to the “savings component” are accessible once a year without a member having to resign or retire from a retirement fund. The benefits payable will be taxable. On the proposed implementation date of 1 September 2024, the “savings component” will be seeded by an amount of 10% of the retirement interest at that date or R30 000, whichever is the lesser. This will be available for members to withdraw following the Two-Pot system implementation on 1 September 2024.

At retirement, the member can:

- elect to transfer a portion (or the total value) of the “savings component” to the “retirement component“ to purchase an annuity; or
- withdraw the portion in the “savings component“ as a cash lump sum. The lump sum will be taxed in accordance with the retirement lump sum tables.

The Two-Pot regime endeavours to address concerns about retirement savings preservation, particularly to ensure that retirement savings are retained for the purposes of retirement. It recognises that some households who are in financial distress may require access to savings. The aim of the Two-Pot system is to balance the short-term financial needs of retirement fund members and their future long-term retirement saving needs. Members, with the assistance of their advisers, should carefully consider the impact on their long-term retirement savings before exercising the option to access the retirement savings component.

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