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# An update on the proposed two-pot retirement system

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In the 11 August 2022 issue of *Glacier Weekly* we provided information on the draft bill relating to the proposed two-pot retirement system. In this article, we provide a short update on the draft response from the authorities on the draft bill itself, after the public commentary process. This draft response was presented by National Treasury and SARS to the Standing Committee on Finance on 20 September.

As background to some of the issues clarified during this presentation, remember that the two-pot retirement system will retain the current principle of EET (i.e. exempting contributions, exempting growth, taxing withdrawals and benefits).

## At-a-glance summary of selected responses to the proposed changes

| Implementation, deductions, T- Day and defined benefit funds | Before the member retires | Post retirement |
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| • The implementation date for the two-pot retirement system will be **postponed from 1 March 2023 to 1 March 2024.**<br>• Government acknowledges that what is referred to as "pots" in the 2022 draft Revenue Laws Amendment Bill are for all intents and purposes components within the respective funds. The authorities will consider an adjustment in the names to reflect their component nature. The definitions of "savings pot", "savings withdrawal benefit" and "retirement pot" will be clarified so as to ensure that the policy intent is correctly reflected in the legislation. | **Tax- efficiency**<br><br>Members of retirement funds will still receive a deduction on contributions as per section **11F** of the Income Tax Act.<br>*Contributions to retirement funds are tax deductible, up to the lesser of:*<br>*1. R350 000 or*<br>*2. 27.5% of the higher of the person's:*<br>• *Remuneration as defined in the Forth Schedule, or*<br>• *Taxable income including taxable capital gains before any deductions under Section 11F itself and 18A, or*<br>*3. The person's taxable income before the Section 11F and 18A deductions and also before inclusion of taxable capital gains.* | The R165 000 de-minimis (R247 500 in total) will apply on a cumulative basis to amounts subject to annuitisation (i.e. the retirement pot and two-thirds of the vested pot). |

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| **Deductions**<br><br>Government acknowledges that changes will need to be made to section 37D of the Pension Funds Act, 1956 (Act No 24 of 1956) to cater for the two-pot retirement system and to ensure that section 37D deductions are catered for from the vested and retirement pot when membership from the fund is terminated or when divorce order settlements become due and payable. | **Contributions**<br><br>• It will be compulsory to contribute one-third into the savings pot.<br>• The proposed changes to the definition of **"savings pot" that reference section 11F** in the 2022 draft Revenue Laws Amendment Bill will be **withdrawn**. The administrative constraints are sufficiently onerous to withdraw the proposal. One-third of contributions will be allocated to the savings pot ("up to" one-third has been removed). The authorities have agreed to remove the provision where 100% of contributions above 27.5% or R350 000 would go to the Retirement Pot, to a flat one-third to the savings and two-thirds to the Retirement Pot. | |

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| **T-Day rights**<br><br>The policy intent is for provident fund members who were 55 years or older as at 1 March 2021 to be given the option to either continue contributing to their current vested pot or participate in the new regime.<br>1. **Continue contributing to current vested pot:** in such cases 100% of the contribution will be allocated to the vested pot, provided the member remains in the same fund they were a member of pre-1 March 2021; or<br>2. **Participate in the new regime:** with one-third of contributions allocated to the savings pot and two-thirds to the retirement pot.<br><br>Clarity on the interaction between the T-Day vested rights and the newly defined vested pot, was provided with the feedback. The policy intent is for the new vested pot to be an accumulation of all vested and non-vested rights earned prior to the two pots implementation date. | **Withdrawals**<br><br>• The R2 000 minimum withdrawal amount from the savings pot is a gross amount.<br>• The 12-month period is intended to be a rolling 12-month period.<br>• Government is open to allowing once-off seeding capital, as long as it does not have adverse implications on liquidity, and the costs of such withdrawal is not imposed on members choosing not to withdraw. Currently the proposal is for seeding to be catered for from the accumulated vested pot into the savings pot to provide for immediate relief or withdrawals.<br>• Given that retrenchment is beyond the member's control, Government proposes that limited income-based withdrawals be permitted from the retirement pot. These withdrawals will be subject to certain conditions (i.e. the vested and savings pots have been fully utilised, access to UIF benefits have been exhausted etc). The member will therefore be required to prove that they have no other alternative income source. Income based withdrawals will be provided for a limited period and in the form of an annuity (with a maximum per year). | |
| **Defined benefit funds**<br><br>A consultative process will be undertaken with relevant defined benefit funds and stakeholders to consider the options available as it relates to public sector funds. The intent is for the system to apply to defined benefit funds as well, but the outcome of the consultative process will inform the required legislative amendments. | | |

We anticipate that further clarification will be added to the 2022 draft Revenue Laws Amendment Bill that will be promulgated in the future. It is very possible that some of the above detail may change slightly with the final wording on the bill. These amendments are still only proposals.

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Annalise is responsible for support of the Business Development team with respect to product entrenchment, legal expertise, regulatory compliance, financial planning principles, digital communication, and strategic project collaboration. Her role is key to ensuring the fulfilment and maintenance of the competency and expertise of the team and selected partners. Annalise joined Glacier in 2015 as a Sales Training Manager looking after the competency and expertise of the Glacier Distribution and Sales team. Before Glacier, Annalise's career spanned almost two decades as a technical professional in the fields of law, financial planning, development, business development and marketing at the Road Accident Fund, Bowline Fulfilment, Bowman Gilfillan Attorneys and Milpark Education. Annalise obtained a B. Proc degree and Postgraduate LLB degree from the University of Johannesburg (1993 to 1999), Postgraduate Diploma in Financial Planning (CFP®) from the University of the Free State (2008) and an Advanced Postgraduate Diploma in Financial Planning (Advanced CFP®) in Estate Planning and Personal Risk Management from the University of the Free State (2010)