



NJMPF

Fund Insight

Your news update

Retirement Reform: Early Access to Retirement Savings - Two-Pot System

The retirement funding industry has seen a lot of changes in legislation. What's common in all the changes in legislation, is governments effort to encourage retirement fund members to save sufficiently towards their retirement, preserve their benefits and ultimately, make provisions to purchase an annuity at retirement. Recently, National Treasury and the South African Revenue Service released the revised 2023 Draft Revenue Laws Amendment Bill and 2023 Draft Revenue Administration and Pension Laws Amendment Bill. The revised Bill includes the name change from “**pot**” to “**component**” and the introduction of **seed capital**. It is proposed that members will be able to withdraw up to 10% of their accumulated savings as at 29 February 2024, limited to a maximum of R25 000 and withdrawals will be subject to the normal tax rates in the hands of the member. The implementation date remains unchanged, it is still proposed to become effective on 1 March 2024. The two-pot system is essentially the third phase in a set of retirement reforms that have been unfolding over the years, with changes to tax deductibility being implemented in 2016 and alterations to provident funds being made in March 2021. Central to the two-pot system is the division of contributions into three distinct components namely, the **Savings Component**, **Retirement Component**, and **Vested Component**. Each component is intricately linked to form an individual's fund credit.

Let's unpack the Two-Pot System's three components

The Savings Component

With effect 1 March 2024, members will have an option to access funds in this component prior to retirement. A maximum of 10% of members existing retirement fund savings, capped at R 25 000 will be transferred to the savings component. This amount is referred to as **Seeding Capital**. The significance of this feature cannot be overstated because it gives members the power to access a portion of their retirement savings pre-retirement while still ensuring a substantial nest egg for the future. As of the 1 March 2024, one third of members monthly contributions will be allocated to the savings component, while two thirds will go towards members retirement component. Members will only be allowed to access their savings component once in a tax year, with a minimum withdrawal amount of R2 000. Withdrawals from this component will be taxed at the marginal tax rate. When members reach retirement age and they still have available funds in this component, members will be allowed claim the full balance from their savings component and the balance in their vested component as a lumpsum payment.

The Retirement component

This component will be made up of two thirds of members monthly contributions made from 1 March 2024 onwards, plus fund returns and other credits. Funds held in this component may only be accessed when members reach retirement and members will be required to use the full amount in the retirement component to purchase an annuity. Should the value of the retirement component be less than R165 000 when a member retires, that member may withdraw the amount in full.

The Vested Component

All member contributions, plus fund returns and other credits accumulated until 29 February 2024 will all be allocated under the vested component with the exception of the 10% or R25 000 that will be considered as seed capital and allocated for members to access on the savings component.





NJMPF

Fund Insight

Your news update

The Vested Component

This means that individuals who were not part of a retirement fund before this date will not have a vested component. Provident fund members aged 55 or older as at 1 March 2021 can either stay and continue contributing to their current provident fund (meaning that they can opt to continue contributing only to the vested component excluding savings and retirement component) or move to the new two-pot system. Funds held in this component can only be accessed by members on the following conditions: resignation, retrenchment, or upon retirement. It is important for members to note, 1) all withdrawals are subject to withdrawal tax, 2) members can only transfer benefit to a component similar to the one they are transferring from, 3) tax-free transfers within the same fund are permitted from vested to retirement component, as well as from the to the retirement component.

Treatment of retirement benefits transferred to other retirement funds

If a member wishes to transfer their retirement interest to another fund, they may do so without any tax implications, subject to the following:

- Funds from a savings component can only be transferred to another savings component or retirement component.
- Funds from their retirement component can only be transferred to another retirement component.
- A retirement fund member may only transfer the available funds from their vested component into another vested component.

Members are urged to provide updated contact details to the Fund. This will assist members in keeping abreast of all new developments with the two-pot system and any retirement fund updates.

When will the two-pot system be implemented?

National Treasury initially indicated a proposed implementation date which has subsequently changed to 1 March 2024 following consultation with the retirement fund industry stakeholders.

