NJMPF

Fund Insight

Your news update - March 2024

When will members have access to their retirement savings?

This is the question that has been on every member's mind since the statement that was made by the previous Minister of Finance, that members should be given access to a portion of their retirement savings while they are still in service as relief from the negative financial impact mostly caused by Covid-19. There has been a lot of developments surrounding this proposal by the National Treasury and the parliament portfolio committee.

The following proposed changes are based on the feedback provided by National Treasury.

As it stands, the proposal submitted by the National Treasury recommends that the implementation date be moved from 1 March 2024 to 1 September 2024. The change in implementation date also comes with an increase in the Seeding Capital from R25 000 to R30 000.

What is Seed Capital?

Seed Capital is a once-off portion of members benefits that will be transferred from members Vested Pot, into members Savings Pot to allow for immediate access to funds post implementation date. The Seed Capital amount will be set at 10% of the value of the member's share in a pension fund immediately before 1 September 2024, with a maximum limit of R30 000. It is important for members to note that withdrawals from the Savings Pot after 1 September 2024, including the Seed Capital with be taxed at members marginal rates.

Here is a practical illustration of how the Seed Capital will work

If Jabu has:

R500 000 as retirement benefit in the Fund as at 31 August 2024, 10% of his retirement benefit will be R50 000 which exceeds the maximum limit of R30 000 therefore, the lesser of these two amounts (R30 000) will be Jabu's Seed Capital and be transferred to his Savings Pot for him to access post implementation date should he need it.

If Smanga has:

R150 000 as a retirement benefit in the Fund as at 31 August 2024, 10% of his retirement benefit will be R15 000. Since 10% of Smanga's Vested Pot does not exceed the maximum limit of R30 000, Smanga's Seed Capital will be R15 000 (10%) and will be transferred into his Savings Pot for him to access post implementation date should he need it.

Jabu and Smanga's Savings Pot grow from month to month as they pay their pension contributions. Remember, from 1 September 2024, pension contributions will be split in two. 1/3 of members contributions will go towards the Savings Pot for members to access and 2/3 will go towards members Retirement Pot for members to access at retirement. A de minimis rule will apply that will direct whether a member can access the Retirement Pot as a lumpsum or they will be required to purchase an annuity with their Retirement Pot benefit.

What is a de minimis rule?

Conditions for benefits accumulated in the Retirement Pot create a compulsory annuitisation until members attain retirement age. Members will not have access to the Retirement Pot even if they resign from the municipality. Once members reach retirement age and they opt for either early or normal retirement, those retiring members will be obliged to purchase an annuity using their benefits accrued in the Retirement Pot. Should members benefit's held in the Retirement Pot be less than R165 000, members will be allowed to claim the full amount as a lump sum.

Tax Treatment on Early Access to retirement savings

Any withdrawals made from the Savings Pot after 1 September 2024, will be taxed at members' marginal tax rates if benefits are withdrawn before retirement. National Treasury is proposing a withholding tax process, instead of retirement funds having to apply for a tax directive for withdrawals made from the savings component. The withdrawal amount will be added to the member's annual income at the end of the tax year, potentially resulting in the member's tax bracket shifting to a higher bracket which means, members may end up with a higher tax amount to pay.

The two-pot/component system will not automatically apply to members who were 55 and older on 1 March 2021. These members will have a choice to opt int and be part of the new regime.

It is important for members to note that:

⇒ The maximum amount that will be made available as seed capital on 1 September 2024 for a member to withdraw is 10% of the value of the member's share in a retirement fund as at 31 August 2024 but capped at R30 000.

⇒ The Savings Pot will grow monthly as members continue to pay contributions.

⇒ Only one withdrawal from the Savings Pot can be made per year, with a minimum withdrawal amount of R2 000.

⇒ All or part of the amount accumulated in the Savings Pot can be accessed once a year.

⇒ Any withdrawal from the Savings Pot will be taxed at the member's marginal tax rate, if accessed before retirement.

⇒ Withdrawing money from your retirement savings will have a negative financial impact at retirement. The more money you withdraw, the lesser the benefit payable at retirement.

⇒ Accessing your retirement savings has far-reaching consequences and should therefore, be a last resort. Members should always consult with a qualified financial advisor when making such important financial decisions.

⇒ In respect of defined benefit fund members (Superannuation and Retirement) withdrawing from their savings pot prior to retirement, will reduce their years of service.

Remember!

Retirement savings are invested in such a way that allows for compounding interest. When the Two-Pot/Component takes effects in 1 September 2024 and members have the option to access their retirement savings, the power of the compound effect on the accumulated benefit will be severely diminished when members keep accessing these funds. Members should not make any financial decisions that have a long-term impact on them without consulting a certified financial advisor.

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.