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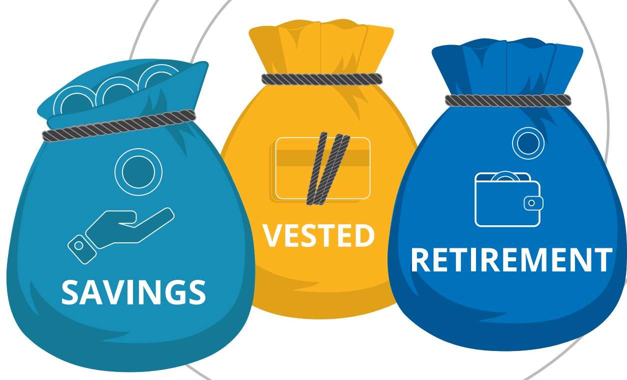

The two-pot retirement system progress

In our previous Member Connect, you were informed about draft legislation in the pipeline that introduces the two-pot retirement system. On 21 November 2023, the Standing Committee on Finance (SCoF) advised against National Treasury and the retirement industry's view that an implementation date of 1 March 2025 is more feasible, and instead, the committee is proposing to revert to the previously proposed implementation date of 1 March 2024. The SCoF report will now have to be considered by the two houses in Parliament for approval and passing of the legislation.

A final decision on whether the draft legislation will be passed with an implementation date of 1 March 2025 or whether the implementation date will be changed to 1 March 2024, must therefore still be made.

The retirement funds industry is concerned about the 1 March 2024 implementation date because final legislation is not yet in place. Without final legislation it is difficult for administrators of retirement funds to finalise developments to their systems and processes. Finalisation of SARS' tax directive system is also awaited, which is crucial to enable members to make withdrawals from their savings pot in their funds. Leading retirement industry bodies have therefore called upon the policymakers to reconsider the implementation date of the two-pot retirement system.

- **How will the two-pot system work?**

  Three new pots are created in practice for you as retirement fund member as at the implementation date, namely a vested pot, a retirement pot, and a savings pot.

Your **vested pot** will consist of your value of your benefit in the fund immediately prior to the implementation date.

Your **retirement pot and savings pot** will accumulate with all new contributions from the implementation date. One-third of new contributions will be directed to your savings pot, with two-thirds directed to your retirement pot.

Withdrawal from the two-pot system

- **You cannot withdraw from your retirement pot**

  Your retirement pot will form the compulsory preservation part of your retirement provision, meaning that you will not be able to withdraw from this pot until your retirement. **You will not be able to withdraw any money from it even when you resign.**

- **Withdrawing from your savings pot**

  The opening balance of your savings pot on the implementation date of the two-pot retirement system will be 10% of your money in the fund, but not more than R30 000. You may withdraw this money from the savings pot after the implementation date. Keep in mind that not everyone will be able to withdraw R30 000. R30 000 is the maximum that you will be able to withdraw after the implementation date on condition that your vested pot has a minimum of R300 000 saved.

  You will also be able to withdraw from your savings pot once per tax year. You cannot withdraw less than R2 000 at a time, but there is no limit on the maximum amount you may withdraw.

However, you need to approach these withdrawals with caution due to the following reasons:

1. The money you withdraw will be taxed at your marginal tax rate, which is much higher rate than what you would pay if you were to leave your retirement money until you reach your retirement. The tax payable will be deducted from the amount you withdraw.
2. There will also be a transaction cost involved, which will be deducted from the amount you withdraw. The administrator of the fund will charge a fee to process every withdrawal.
3. If you leave your money in the fund until your retirement, the first R550 000 of your money, will be free of tax. If you deplete your savings pot and you have no vested pot or a small vested pot, you won't be able to take advantage of this tax-free amount.