

Early access to retirement benefits (the two-pot system) - update



The proposals on the two-pot retirement system were first published by National Treasury on 29 July 2022. The second draft of these proposals was issued on 9 June 2023 and is open for public comments until 15 July 2023. An extensive legislative process, including public workshops and hearings, will now follow before the proposals go to Parliament. The proposals may therefore still change.

In the proposals, the name was changed from “pots” to “components”. It is however still introduced as the “two-pot” system. The suggested implementation date remains 1 March 2024, although the South African Revenue Service, the retirement funds themselves and their administrators will have to undergo extensive system and process changes to cater for it, after they have worked through the proposals.



It is proposed that from 1 March 2024, all your contributions flowing into retirement funds to which you belong (pension fund, provident fund, preservation fund or retirement annuity fund), will be allocated to two different pots, a retirement pot and a savings pot.

One-third of your contributions will go to the savings pot, which will be the pot from which you will be allowed to take cash withdrawals before retirement. Two-thirds of your contributions will go into the retirement pot and no cash withdrawals will be allowed from the retirement pot. Even when you resign from employment, you will not have access to the retirement pot, but will have to preserve the benefit and use it to provide you with a monthly pension on retirement.

As an existing retirement fund member, a third pot will be established which will contain your existing benefit in your retirement funds at 29 February 2024 and which will be excluded from the two-pot system. You will not make any further contributions to this vested pot. The current regime in effect before 1 March 2024 will apply in respect of the vested pot, which means that, for example, you will be allowed on termination of employment before retirement, to receive the benefit in cash.



Withdrawing money from your savings pot

- A seed capital amount or starting balance is proposed. It will amount to 10% of your money in the fund immediately before 1 March 2024, to a maximum of R25 000.
- You will only be able to withdraw from the 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. The R2 000 will be the value before any charges/transaction costs are deducted.
- When you leave employment, an additional withdrawal will be allowed in that tax year if the amount in your savings pot is less than R2 000.

Any payments made to you from your savings pot before retirement will be treated the same as remuneration and be subject to employees’ tax (PAYE).

It is important to understand the financial implications of withdrawing any money that is meant for your retirement.

Once the legislation comes into effect, you are encouraged to only consider exercising the withdrawal option as a last resort, and to try and preserve your retirement savings for when you retire.



Retirement

If you are a fund member on 1 March 2024 and you therefore have a vested pot, the amount in the vested pot will be payable to you as a lump sum, or monthly pension, or combination, depending on whether you were a member of a pension or provident fund.

At your retirement, the total of your retirement pot will be payable to you in the form of a monthly pension except if, together with the portion in the vested pot which must be used to provide you with a pension, it is less than R165 000, then you may take it in cash.

You can withdraw any money still in your savings pot at retirement or transfer it tax-free to your retirement pot. If you withdraw money from your savings pot at retirement, it will be taxed in terms of the retirement lump sum tax table. This could result in a tax-free withdrawal of up to R550 000 upon retirement.

Members older than 55 years on 1 March 2024

If you are a member of a provident fund and you were 55 or older on 1 March 2021 (the date that provident funds were annuitised), and are still a member of that provident fund, you will be able to continue to contribute to the vested pot, in which case you will not contribute to the savings or retirement pot.

Keep in mind that the proposals are subject to change. If you are a member of a provident fund and will be 58 years or older on implementation date, you should pay special attention to any future updates, communication and requests to elect options from your fund.

Your retirement fund will keep you up to date with developments throughout the process. Updates on the administrative processes will be provided to you as soon as system development and processes have been finalised by the administrator of your fund.

Frequently asked questions



Vested pot



Savings pot



Retirement pot

How much of my retirement money will go into each pot on implementation?	The value of the benefit in your fund immediately before 29 Feb 2024 will go into the vested pot (less the amount allocated to the savings pot as a starting balance)	The savings pot will have 10% of the value of your benefit as at 1 March 2024, but to a maximum of R25 000 in it to start with	The retirement pot will not have any money in it to start with
To which pot will my retirement fund contributions going forward go?	No contributions will be made to this pot after 1 March 2024, except for members of provident funds who were 55 or older on 1 March 2021, who elected to continue contributing to this pot	1/3 of contributions after 1 March 2024 will go to the savings pot	2/3 of contributions after 1 March 2024 will go to the retirement pot
What can I withdraw before I leave employment?	You cannot make withdrawals from this pot	Any amount, but at least R2 000 may be withdrawn once in a tax year	You cannot make withdrawals from this pot
What can I withdraw when I leave employment before retirement?	You may withdraw the full balance	You may withdraw the full balance, but you may only withdraw once in a tax year unless the amount in savings pot is less than R2 000 when you leave employment	You cannot make withdrawals from this pot
What can I withdraw (receive in cash) when I retire from employment?	In accordance with the rules applicable before 1 March 2024, and will therefore depend on whether you were a member of a pension or provident fund and whether annuitisation is applicable to your benefit	You may withdraw the full balance	You cannot make cash withdrawals from this pot, the amount must be used to provide an annuity
How will tax be applied to the withdrawals from different pots?	In accordance with current taxation regime (withdrawal or retirement tax tables will apply)	Any withdrawals from this pot before retirement will be taxed in terms of the PAYE tables At retirement it will be taxed in accordance with the retirement tax table if accessed in cash at retirement	You cannot make cash withdrawals from this pot The annuity will be taxed as and when it is paid to the pensioner