

# The basics of the two-pot system proposals

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## Why the two-pot system?

The two-pot system allows retirement fund members to access up to one-third of their ongoing retirement fund contributions once a year, whilst saving the remaining two-thirds for retirement. This allows South Africans access to money while at the same time preserving assets for retirement.

## So what's new?

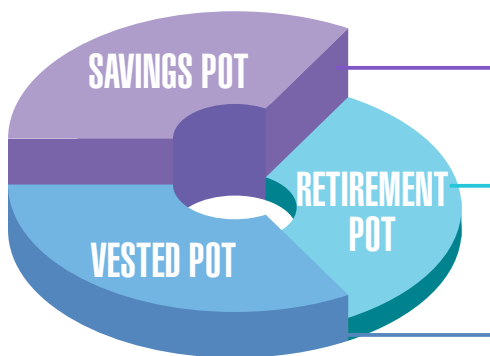
The two-pot system introduces three different "pots" – a "savings" pot, a "retirement" pot and a "vested pot" from 1 March 2024. Everything saved in a fund before 1 March 2024 is in the vested pot. The retirement pot and savings pot are made up from contributions after 1 March 2024. So, from 1 March 2024 a member's record in a fund may have three pots.

## When will the two-pot system take effect ?

1 March 2024.

## What happens to the funds I have saved up before the two-pot system?

These funds are in a "vested" pot and existing rules apply to this pot.



- One third of contributions from 1 March 2024 are paid into this pot
- Funds held in this pot may be accessed before retirement and without termination of employment
- May access these funds once per rolling 12 months, with a minimum drawing of R2 000

- Two thirds of all contributions from 1 March 2024 are paid into this pot.
- Funds in this pot are preserved until retirement

- A member's accumulated retirement savings before 1 March 2024 are in this pot
- Members may not access these funds whilst still in service

## What will I be paid from the pots on exit before retirement?

## Can I transfer funds between pots?

### VESTED POT

Amounts may be withdrawn on termination of employment but cash withdrawals are subject to retirement fund lump sum tax

### SAVINGS POT

Amounts may be withdrawn from this pot if the member has not made a withdrawal from this pot in the last 12 months. Cash withdrawals are taxed at marginal rates.

### RETIREMENT POT

No pre-retirement withdrawals are allowed - pot is preserved until retirement

**Vested pot** - May transfer from one vested pot to another

**Savings pot** - May transfer into a retirement pot or another savings pot

**Retirement pot** - May transfer from one retirement pot to another  
May receive transfers from savings pot

The lump sum tax on withdrawal (exit from the fund) and retirement (2023/2024)

#### Retirement

2023/24	
Taxable income (R)	Rates of tax
R0 - R550 000	0% of taxable income above R550 000
R550 001 - R770 000	18% of taxable income above R550 000
R770 001 - R1 155 000	R39 600 + 27% of taxable income above R770 000
R1 155 001 and above	R143 550 + 36% of taxable income above R1 155 000

#### Withdrawal

2023/24	
Taxable income (R)	Rates of tax
R0 - R27 500	0% of taxable income
R27 501 - R726 000	18% of taxable income above R27 500
R726 001 - R1 089 000	R125 730 + 27% of taxable income above R726 000
R1 089 001 and above	R223 740 + 36% of taxable income above R1 089 000

## What happens to my funds when I retire?

### VESTED POT

No change to rules  
Annuitisation vested benefits may be taken in cash  
Annuitisation non vested amount may be paid  
1/3rd cash & 2/rds annuity.

### SAVINGS POT

Funds may be paid in cash in full or transferred to the retirement pot

### RETIREMENT POT

All amounts must be annuitised.  
Amounts in pots that must be annuitised can be paid in cash if below the statutory minimum.

DIFFERENT RULES APPLY to a provident fund member who was 55 or older on 1 March 2021 and is still a member of the same provident fund: these members will contribute to the vested pot and the same rules apply to them as applied before 1 March 2024. They do not have a savings pot and a retirement pot, only a vested pot. So they can take everything if they withdraw from the fund. They can't receive anything from the fund while they are still members. On retirement the same rules apply as apply now. Watch out for any changes Treasury may make for these members.

## From 1 March 2024 some of your retirement fund benefits will change because the law has changed

### Example - member communication (common questions)

You can take cash out of your new savings pot in the fund every year

But you need to build this up first

- After 1 March 2024, once a year, for any reason, you can take some money out of your new savings pot in the fund while you are still employed and still a member of the fund.
- On 1 March 2024 you will have nothing in your savings pot and then it will start to grow.
- You build up money in your savings pot automatically because one-third of the contributions going into the fund for you are paid into your savings pot. And it earns investment return.
- If you take money out of your savings pot you are taxed on it at marginal rates. The fund deducts this tax before paying the rest to you.
- If you take money out of your savings pot, you must take a minimum of R2 000.
- You do not have to take money out of your savings pot every year. If you do take money out of your savings pot your benefit will be less if you leave the fund and when you retire. And the amount you can take in cash then will also be less.

When you leave the fund because your employment ends, there will be some money in the fund that you cannot take in cash

- After 1 March 2024, there is a part of your savings in the fund that will NOT be paid to you in cash. This is your retirement pot in the fund and it is only paid to you when you retire.
- This amount in the fund, that you can only have access to when you retire, is called your retirement pot.
- You build up money in your retirement pot automatically from 1 March 2024 because two-thirds of the contributions going into the fund for you is paid into your retirement pot. And it earns investment return.
- So what you will be paid if you leave employment and the fund is what is in your savings pot as long as you have not taken money out of the savings pot in the last 12 months - as well as anything that was already saved in the fund before 1 March 2024 (and investment return on that). You will not be paid what is in your retirement pot.

When you retire, there will be some amounts you can take in cash and some amounts that must be paid to you as a pension/ annuity

- On retirement, the benefit that might be paid to you in cash is anything you still have in your savings pot plus your savings in a provident fund before 1 March 2021 (plus investment return).
- The rest of the retirement benefit must be paid to you as a pension/ annuity.
- If your retirement benefit is not big, and is under a limit set in law, you may be able to take it all in cash.

#### Disclaimer

*This communication is not advice and persons should seek their own advice before using it or relying on it.*

*This communication contains the views of the authors as at the end of April 2023. These views contain interpretation of the draft legislation.*

*Legislation will still change and be finalised which will require this communication to be updated. This communication requires tailoring per fund.*