LIBERTY
In it with you

TWO-POT RETIREMENT SYSTEM

Frequently Asked Questions

A new retirement system, known as The 'Two-Pot' Retirement System, has been proposed for implementation as part of the South African government's retirement reform initiatives. Starting from 1 March 2024, a member's retirement savings will be categorised into three different 'pots', formally known as 'components'.

The first component, known as the **'Vested Component'**, will comprise of members' accumulated retirement savings as at 29 February 2024, less an amount allocated to 'Seed Capital', plus investment returns earned on these savings from 1 March 2024 onwards. The benefits in this component will remain split into 'Vested' and 'Non-Vested' benefits according to the T-Day rules that were introduced on 1 March 2021. After the implementation date, members will have the same rights of access to the benefits in their Vested Component, as they do currently. They will consequently have "vested rights" of access, which will include all existing rights relating to their accumulated "Vested" and "Non-Vested" benefits.

The second component, known as the **'Savings Component'**, will enable access to accumulated savings prior to retirement. This component will comprise the 'Seed-Capital' taken from the member's accumulated savings as at 29 February 2024 plus **one-third of all retirement contributions** (less charges and risk premiums) made from 1 March 2024 onwards. It will also include all investment returns earned on these contributions. Cash withdrawals from the Savings Component, known as 'Savings Withdrawal Benefits' will be allowed once per year of assessment, subject to a minimum amount of R2 000 (before deducting charges or transaction costs).

The third component, known as the **'Retirement Component'**, will comprise of **two-thirds of all retirement contributions** (less charges and risk premiums) made from 1 March 2024 onwards, plus all investment returns received on these contributions. This component must be preserved until retirement and withdrawals will only be allowed from this component under exceptional circumstances- specifically if the member has emigrated or has ceased to be a South African tax resident for a period of at least 3 years.

This means, from 1 March 2024, members may have up to three 'pots' or 'components' going forward, i.e., a Vested Component, a Savings Component and a Retirement Component. Each of these components will have various rules for withdrawal, taxation and annuitisation.

Below are some frequently asked questions to clarify further details on the new Two-Pot retirement system.

1. General questions on the new Two-Pot Retirement System

Who will be affected by the Two-Pot Retirement System?
The Two-Pot retirement system will affect members of all types of retirement funds.

1. Public sector funds and private sector funds;
2. Defined Benefit Funds ("DB Funds") and Defined Contribution Funds ("DC Funds"; and
3. Pension Funds, Provident Funds, Pension Preservation Funds, Provident Preservation Funds and Retirement Annuity Funds.

How will current accumulated retirement savings be impacted?
A member's current accumulated retirement savings, less "Seed Capital" (see below), will form part of the new Vested Component. A member's current rights for access to these benefits and the manner in which these benefits are taxed will carry through into the new system. Members will consequently have "vested rights" of access to the benefits in the Vested Component, which will include recognition of all the rights relating to their accumulated "Vested" and "Non-Vested" benefits. Future contributions made from 1 March 2024 will form part of the Savings Component and Retirement Component.

What is 'Seed Capital', and what does this mean for the starting value in the Savings Component?
'Seed Capital' is a portion of a member's accumulated retirement savings as at 29 February 2024. The "Seed Capital" that will be transferred once-off into the member's Savings Component on or after 1 March 2024. This will serve as a starting balance to the Savings Component. Seed Capital is proposed to be calculated as 10% of the accumulated retirement savings as at 29 February 2024, capped at R25 000.

What will happen to the investment returns earned on the retirement contributions after 1 March 2024?
From 1 March 2024, one-third of a member's retirement contributions (less charges and risk premiums) will be allocated to their Savings Component and two-thirds will be allocated to their Retirement Component. Any investment returns earned on the retirement contributions after 1 March 2024 will accumulate in the component that the contributions are allocated into.

Will the member have the option to direct Additional Voluntary Contributions (AVCs) to the Savings Component?
Members will not be able to direct 100% of AVCs into the Savings Component after 1 March 2024. One-third of the AVCs made will go into the Savings Component, and the remaining balance (two-thirds) of the AVCs made will go into the Retirement Component.

Which transfers between components will be allowed?
Within the same fund (intra-fund transfers):

- From a Vested Component to a Retirement Component.
- From a Savings Component to Retirement Component.

Between different funds (inter-fund transfers):

- Transfers between the same type of components e.g., transfer from one Retirement Component in Fund A to another Retirement Component in Fund B.
- From a Vested Component in Fund A to a Retirement Component in Fund B.
- From a Savings Component in Fund A to a Retirement Component in Fund B.

Inter-fund transfers will only be allowed when a member resigns or retires from their respective retirement fund. If a member chooses to make an inter-fund transfer, all components will need to be transferred at the same time.

The above transfers may be made tax-free.

How will deductions in terms of the Pension Funds Act be applied to the three components?
Section 37D deductions as contained in the Pension Funds Act will be taken proportionally from the Vested Component and Retirement Component. This will apply to deductions such as housing loans, maintenance orders, divorce awards and employer compensation orders.

Currently the draft legislation does not allow such deductions from the Savings Component. However, the final legislation is likely to provide for such deductions to be made from the Savings Component.

2. Impact of T-Day on the new Two-Pot Retirement System

What are the current rules affecting a member's retirement savings following the T-Day retirement reform?
Currently, as a result of the T-Day changes effective from 1 March 2021, a member's retirement savings may be split between 'Vested' and 'Non-Vested' benefits.

- The 'Vested Benefits' comprise of a members accumulated in a provident preservation fund and contributions to a provident fund prior to 1 March 2021 (known as T-Day), plus investment returns earned on these accumulated savings from the T-Day onwards. A provident fund member's contributions made after T-Day (plus investment returns earned after that date) will also comprise Vested Benefits if that member was 55 or older on T-Day and remains in the same provident fund. Up to 100% of this benefit may be taken as a cash lump sum benefit at retirement.
- The 'Non-Vested Benefits' comprise a member's retirement saving in a pension fund, pension preservation fund or retirement annuity fund. They also comprise a member's contributions to a provident fund from the T-Day, plus investment returns earned on these savings accumulated from T-Day onwards. At least two-thirds of this benefit must be used to purchase an annuity at retirement (subject to a statutory minimum amount currently at R247,500).

What will happen to the 'Vested' and 'Non-Vested' benefits after the implementation of the Two-Pot Retirement System on 1 March 2024?
The Two-Pot system will not affect a member's rights to the retirement savings accumulated up to 29 February 2024. After the implementation date, all the member's current rights of access will co-exist with the new Two-Pot system, whereby vested rights of members' benefits will be retained. A member's 'Vested Benefits' and 'Non-Vested benefits' will form part of the new Vested Component (less 'Seed Capital' transferred to the Savings Component)

What will the new Vested Component contain, and how will it be treated going forward?
The 'Vested Component' will comprise members' accumulated retirement savings as at 29 February 2024, less and amount allocated to 'Seed Capital". It will also include the investment returns earned on these savings from 1 March 2024. This component will remain split into 'Vested' and 'Non-Vested Benefits' according to the T-Day rules. Investment returns earned on each of the member's 'Vested' and 'Non-Vested' Benefit portions,from 1 March 2024, will continue to be allocated to those respective benefit portions. Any cash lump sum withdrawals (i.e., on resignation/ dismissal/ retrenchment) from the Vested Component will be taxed in accordance with the applicable lump sum withdrawal tax table.

Once the Two-Pot system is active, there will be no new contributions into the Vested Component. However, members of provident funds who were aged 55 years or older on T-Day may elect, to make future contributions only to the Vested Component. If these members do not make such an election, the contributions they make after the implementation date will be allocated to their Savings and Retirement Components.

Will the Two-Pot Retirement System be applicable to all members, or will there be exceptions?
Existing members of provident funds who were aged 55 or older on T-Day and remain members of their original provident fund, will have the choice to keep contributing to the Vested Component, or participate in the Two-Pot regime, where they will no longer contribute to the Vested Component, and new contributions from 1 March 2024 will be allocated into the Savings Component and Retirement Component.

3. Pre-retirement withdrawals under the new Two-Pot Retirement System

What pre-retirement withdrawal benefits will be accessible after the implementation of the Two-Pot Retirement System on 1 March 2024? What will the respective tax implications of making such withdrawals be?

Vested Component:
Members will have all the same rights of access to the benefits in the Vested Component that they do currently.

- In the case of pension and provident funds, members can take a cash lump sum withdrawal benefit in full, upon termination of employment (due to resignation, dismissal or retrenchment).
- In the case of pension or provident preservation funds, members can still take their one partial or full cash lump sum withdrawal benefit before retirement. In the case of pension and provident preservation funds and RAs, members can still take a cash lump sum withdrawal benefit on emigration, cessation of SA tax residence for a period of at least 3 years or if the member is a non-resident, on the expiry of their SA visa.
- In the case of RAs members can still take their cash lump sum withdrawal benefit if the value is less than R15,000.

Any cash lump sum withdrawal benefits take will be subject to tax in accordance with the lump sum withdrawal tax table (first R27,500 tax free).

Savings Component:
Members will have access to benefits in this component in cash at any time prior to retirement, but withdrawals (known as the 'Savings Withdrawal Benefits') will be allowed once per year of assessment only. The minimum amount that can be taken as a cash Savings Withdrawal Benefit is R2000 (gross amount, i.e., before charges, transaction costs or taxes are deducted). The cash Savings Withdrawal Benefit will be taxed at the member's marginal tax rate. In the event where a member resigns from employment and this member has already taken their one Savings Withdrawal Benefit within the relevant year of assessment, an additional withdrawal will be allowed in that same tax year, provided that the balance in the Savings Component is less than R2 000.

Retirement Component:
The benefits in this component must be preserved until retirement and no withdrawals will be allowed from this component before retirement, except under exceptional circumstances. This component will only be accessible at retirement or the death of the member. Members will only be allowed to access these benefits prior to retirement if:

- They have formally emigrated or ceased their South African tax residency for a period of at least three years or,
- They are non-residents, and their SA work or visitor's visa has expired.

Could there be additional transactional costs with regards to the cash Savings Withdrawal Benefits taken from the Savings Component and how will these costs be paid?
Yes. The cost of withdrawals may be payable by the member.

4. Retirement benefits under the new Two-Pot Retirement System

What will happen when a member retires after the implementation of the Two-Pot Retirement System?
Upon retirement, a portion of a member's retirement savings may be subject to compulsory annuitisation, while the remainder will be allowed to be taken as a cash lump sum retirement benefit.

Vested Component
At retirement a member will be able to take 100% of the Vested Benefits and up to one third of the Non-Vested Benefits as a cash lump sum retirement benefit.

The member will however be required to purchase an annuity with at least two thirds of the Non-Vested Benefits. If however, the Non-Vested Benefits together with the benefits in the Retirement Component fall below R247,500, the member will be able to access the Non-Vested Benefits as a cash lump sum retirement benefit in full.

Savings Component
Any benefits left in the Savings Component at retirement can be taken as a cash lump sum retirement benefit. They can also be transferred to the Retirement Component at retirement and taken in the form of a compulsory annuity.

Retirement Component
Benefits in the Retirement Component must be taken in the form of a compulsory annuity at retirement. Only if the the Non-Vested benefits in the Vested Component and the benefits in the Retirement Component fall below R247,500 can the benefits in the Retirement Component be taken as a cash lump sum retirement benefit.

Retirement Benefit
Cash lump sum retirement benefits are subject to tax in accordance with the lump sum retirement tax table (first R550,000 tax-free).

Compulsory annuities are subject to tax in accordance with the member's marginal tax rate.

5. What happens on the member's death after the implementation date?

On death, the deceased member's beneficiaries will be able to access the benefits in all three components as either a cash lump sum retirement benefit or as a compulsory annuity or as a combination of both.