

The basics of the two-pot system

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 tax 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?

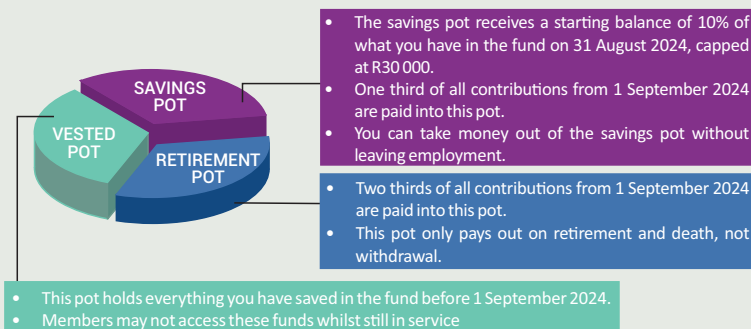
The two-pot system introduces three different pots – a savings pot, a retirement pot and a vested pot from 1 September 2024. Everything saved in the fund before 1 September 2024 is in the vested pot. The retirement pot and savings pot are made up from contributions after 1 September 2024. So, from 1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

When will the two-pot system take effect ?

1 September 2024.

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

These funds are in a "vested" pot and the fund's existing rules apply to this pot. These funds in the vested pot are not affected by the two-pot system. You can still take these retirement savings the same way as you could before the legislation on withdrawal, death and retirement.



What will I be paid from the pots on termination of employment before retirement?

Vested pot

This pot can be paid in cash on termination of employment. Cash withdrawals are subject to retirement fund lump sum tax.

Savings pot

Everything in the savings pot can be paid in cash, only if you have not taken money out of your savings pot in that tax year. OR, if you have and you have under R2 000 in your savings pot. Cash is taxed at your marginal rate of tax.

Retirement pot

You cannot take any cash out of your retirement pot when you leave employment. Your retirement savings in this pot are paid to you when you retire.

What happens when I retire?

Vested pot

- This amount can be taken part in cash and part as an annuity, depending on existing annuitisation rules.
- Cash is taxed in terms of the retirement fund lump sum tax tables, so you may have a tax free amount.

Savings pot

- This can be taken in cash. What you don't take in cash must be annuitised.
- Cash is taxed in terms of the retirement fund lump sum tax tables, so you may have a tax free amount.

Retirement pot

- The whole amount must be annuitised. The annuity/pension will be taxed at your marginal rate.

If you have a small retirement benefit, you may be able to take it all in cash. This minimum amount is set in law from time-to-time.

Member of a provident fund who was 55 years or older on 1 March 2021; and is still a member of the same fund

Can I take money out of my savings pot in the fund without leaving employment?

- Yes you can.
- You can take money out of the savings pot in the fund once every tax year.
- You must have R2 000 in the savings pot before you can take anything.
- There is no maximum amount - that depends on how much you have in your savings pot.
- You will be fully taxed at your marginal rate of tax.
- You may have to pay a fee.
- You don't have to take it now.
- You may be asked questions about deductions, like divorce and maintenance actions.

Specific category of older members

- Can choose to be in the two-pot system or out.
- Can opt in - default is out of the two-pot system.
- Once-off election to opt in.
- Twelve months to make election from 1 September 2024.
- Seeding is calculated on the last day of the month that the election is made to opt in to the two-pot system (10% of what is in the fund on that date, capped at R30 000).

If in the two-pot system

Will have a savings pot (including seeded bit) and a retirement pot after election date.

On retirement: contributions to the retirement pot (and fund return) must be used to purchase an annuity. Contributions to savings pot, after election, can take in cash.

Can take savings withdrawal benefits from the savings pot while employed.

If out of the two-pot system

Will contribute to vested pot and nothing will change.

Whole retirement benefit can be taken in cash on retirement.

Won't be able to take a savings withdrawal benefit while employed.

Do you need to know more?

Disclaimer

This communication is not advice and persons should seek their own advice before using it or relying on it. The law could still change, so the information in this communication could change.

For more communications about the two-pot system, visit

www.ensimini.com/twopot

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