ALLAN GRAY

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Part 2: The two-pot system – what we know for now

There has been a lot of noise in the past few months about the changes that are being made to the South African retirement system and what those changes mean for retirement savings. However, these legislative amendments have not yet been finalised and some of the details for the so-called "two-pot system" may be adjusted. In part 2 of our Two-pot chapter, Jaya Leibowitz discusses what we know for now, following the release of National Treasury's latest draft response document on 25 October.

Splitting contributions

From the implementation of the new two-pot system, which National Treasury has proposed to be from 1 March 2025, rather than 1 March 2024 as stated in the draft legislation, all contributions to provident, pension and retirement annuity funds, including the Allan Gray Retirement Annuity Fund and Allan Gray Umbrella Retirement Fund, will be split into two components: One-third of the contributions will be credited to a "savings component" and the remaining two-thirds will be credited to a "retirement component", as shown in **Image 1** on page 2.

The savings component is intended to provide accessibility for members in the event of an emergency where no other funds are available. At any time prior to retirement, members will be entitled to access a withdrawal of up to 100% of the amount that has been accumulated in the savings component, subject to a minimum withdrawal of R2 000. This "savings withdrawal benefit" will be limited to one withdrawal per tax year. Importantly, the savings withdrawal benefits will be taxed at the member's marginal income tax rate in the year of withdrawal. (For a better understanding of how this benefit may impact your retirement savings, please refer to The two-pot system and your savings withdrawal benefit, available via the Allan Gray website).

The retirement component will be inaccessible before a member retires. The total amount in this component must be used to purchase an annuity-providing product at retirement, such as a living annuity or guaranteed life annuity, which will provide the member with an income after they retire. The amount to the credit of the retirement component will only be accessible in cash in two instances: (1) if the member has ceased to be a South African resident for a continuous period of three years; or (2) if the amount in the member's retirement and vested components in the fund are less than an amount prescribed by legislation (currently R247 500).

Existing retirement fund savings

Any savings that a member has in a retirement fund immediately prior to the implementation of the two-pot system will be credited to a "vested component", as shown in **Image 2** on page 2.

The current rules that apply to the member's savings will continue to apply to the vested component. Members will still be able to access withdrawal benefits and cash on retirement, subject to the current restrictions. These cash benefits will continue to be taxed in the same way as they are currently.

Members of provident funds who were 55 and older on 1 March 2021

Members of provident funds who were 55 or older on 1 March 2021 and have vested rights related to their ongoing contributions to that provident fund will be treated differently from other retirement fund members. These individuals will have a choice as to whether or not they want to participate in the two-pot system. The contributions of those who choose not to participate will continue to be credited entirely to the vested component and the current rules will continue to apply. In its latest draft response document, National Treasury indicated that these members will be excluded from the two-pot system by default, but will be able to opt-in if they wish to participate.

Immediate accessibility

To give members who need it access to cash, 10% of the amount in a member's vested component, subject to a maximum of R25 000 (or R30 000 based on National Treasury's latest proposal), will automatically be transferred to their savings component on the implementation date of the two-pot system (see **Image 3** on page 2). Certain types of members, such as members of provident funds who were 55 and older on 1 March 2021 and choose not to participate in the two-pot system (as discussed above), and certain types of retirement funds are likely to be excluded from this automatic transfer, but this list still has to be confirmed.

Implementation date

There is uncertainty around the implementation date for the two-pot system, which was scheduled for 1 March 2024, but may be pushed out by a year, based on National Treasury's proposal. Allan Gray is in the process of developing its systems and processes to cater to the new legislation and ensure that members who want to access a savings withdrawal benefit will be able to do so.

We have been engaging with National Treasury and the South African Revenue Service around the details of the changes that still need to be confirmed and finalised and will keep clients and advisers updated as new developments arise.

Image 1: The two-pot system – allocation of contributions on and after the implementation date

1/3	2/3
Contributions	

Excluding fees, charges and premiums

Savings component

- 100% withdrawal at any time prior to retirement
- One withdrawal per tax year
- Minimum withdrawal amount = R2 000; maximum = amount in this component
- Withdrawals taxed as gross income at the marginal rate

Retirement component

- Inaccessible and preserved until retirement
- Must be 100% annuitised at retirement
- Full withdrawal may be allowed if the value of the fund is less than the legal minimum specified by legislation at the time of withdrawal
- Accessible when permanently tax resident in another country for at least three years

Image 2: Putting the different components together

Vested component

Value in the retirement account before implementation date

Follows existing rules:

- 100% withdrawal on termination of employment for Umbrella Retirement Fund members
- 1/3 in cash on retirement, unless the value is below a prescribed amount then a full withdrawal can be made

1

Savings component

1/3 of contributions made from implementation date and growth

Accessible before and at retirement, subject to some restrictions.

2

Retirement component

2/3 of contributions made from implementation date and growth

Inaccessible in cash unless the value is below a prescribed amount. Must be used to purchase an annuity.

3

Image 3: Seeding the savings component

Vested component	Savings component	Retirement component
1	2	3

Lower of:
10% and R25 000 (may be increased to R30 000)

Commentary contributed by Jaya Leibowitz, senior legal adviser, Allan Gray

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