An update on the proposed two-pot retirement system

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The proposed two-pot retirement system and consequences for our members

The South African retirement fund industry is eagerly awaiting the implementation of the proposed two-pot retirement system. At the outset National Treasury proposed an implementation date of 1 March 2024, however through various consultative processes with stakeholders, it was proposed that the implementation date be moved to 1 March 2025. However, at the time of writing this article parliament's finance committee agreed to an alternative implementation date of 1 September 2024. The revised implementation date provides industry role players with more time to prepare, however there are still a number of significant issues that need to be finalised in order to provide clarity to the industry, such as the approval of necessary amendments to legislation (i.e., Income Tax Act and Pension Funds Act among others). At the time of writing this article the retirement fund industry had not yet received the required legislative updates.

Regardless of the implementation date, as a financial service provider we are currently in the process of updating our systems and processes to ensure that we are well prepared to service our member's requests in relation to the proposed two-pot retirement system.

Practical implementation

New contributions

From the proposed implementation date (i.e., 1 September 2024) all new contributions to provident funds, pension funds and retirement annuity funds will be split into two components. Member contributions will be apportioned a follows:

- One-third of contributions will be allocated to a "savings component" which members may access annually subjected to a minimum withdrawal limit of R2000; and

- Two-thirds will be allocated to a retirement component which members must use to purchase an annuity at retirement.

Existing Retirement Savings

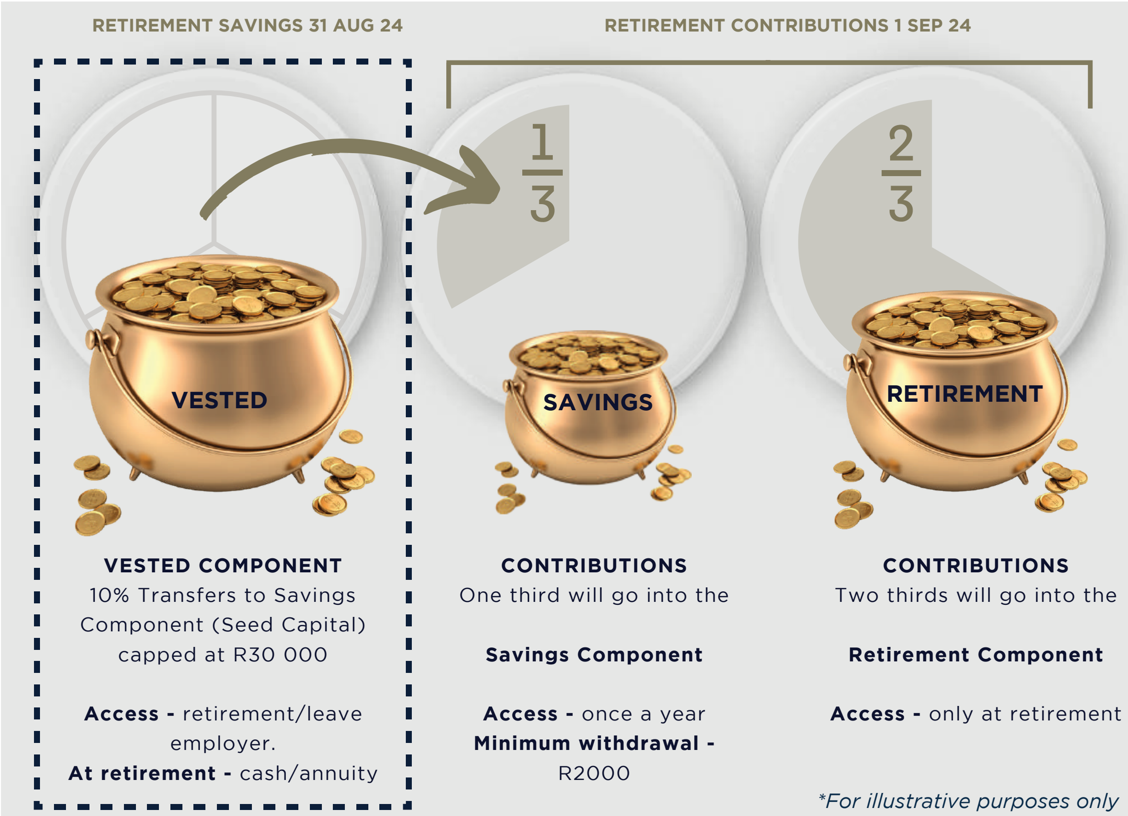
It is important to understand that the proposed two-pot system also impacts a member's existing retirement savings (i.e., contributions already made by members to their respective retirement funds prior to the implementation of the two-pot system). The current legislation provides that all contributions prior to the implementation of the two-pot system will form part of a vested component. The vested component will not be impacted by the two-pot system and the current rules that apply to the vested component will continue to apply. In other words, any withdrawal benefits or accessibility to funds at retirement will remain unchanged. However, there will be a seeding requirement from the vested component to the savings component (i.e., proposed seeding of the savings component with 10% from vested component, subject to a maximum of R30 000, which members may access from 1 September 2024).

The current draft legislation indicates that members of provident funds who were 55 years old on 1 March 2021 will be excluded from the two-pot system and their contributions will not be applied to the various two-pot components. However, these members have a choice in whether they wish to participate in the proposed two-pot system or not.

The infographic below provides an explanation of the proposed two-pot system.

PPS Multi-Managers (Pty) Ltd is an authorised FSP and has appointed Laurium Capital as the sub-advised investment manager of the PPS Stable Growth Fund

Infographic 1 – Two-pot system contributions



Unintended consequences for our members

Impact on retirement savings outcomes

While the retirement reforms initiated by National Treasury are welcomed it is important that PPS members understand the consequences of the various proposals and the impact on their retirement outcomes. Members will have the ability to withdraw from their savings component, once annually, and there will be no monetary limit to the withdrawal, meaning member's may withdraw the full value of their savings component each year. According to the Association of Savings of South Africa (ASISA) it is estimated that only 6% of the South African population are on track to retire comfortably. Accessing retirement savings prior to retirement may impact on our members' ability to fund a sustainable income in retirement. As such and given the unintended consequence of any early withdrawal from a members retirement savings, PPS Investments urges members to discuss any withdrawals with their accredited financial advisors to understand the impact of such withdrawal on their retirement planning.

Impact of tax on our member's retirement savings

When withdrawing from your savings component, prior to your retirement, withdrawals will be taxed. Such withdrawals will be added to your annual income and taxed at your marginal tax rate. The current South African marginal tax rates are between 18% and 45% depending in your annual income. However, members that are diligent in saving toward retirement can benefit from more favourable tax "incentives" with the first R550 000 of their retirement withdrawal being untaxed as well as lower tax rates on amounts above the R550 000.

More importantly, avoiding the temptation to withdraw prematurely from your savings component may allow members to retire more comfortably and continue living the lives they want to live throughout their retirement.

Our purpose as a "Mutual"

At PPS Investments, our purpose is anchored in empowering graduate professionals and their families on their financial journey with a focus on the creation and management of intergenerational wealth.
PPS Investments strives to enhance financial well-being and foster lasting prosperity for our members.
As such, we recommend that you speak to your accredited financial advisor to understand your retirement plan, Profit-Share Account and how PPS Investments' holistic financial products can assist in you achieving your retirement goal.

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