

Aon South Africa

# The Two-Pot Retirement System Update

2024

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**AON**



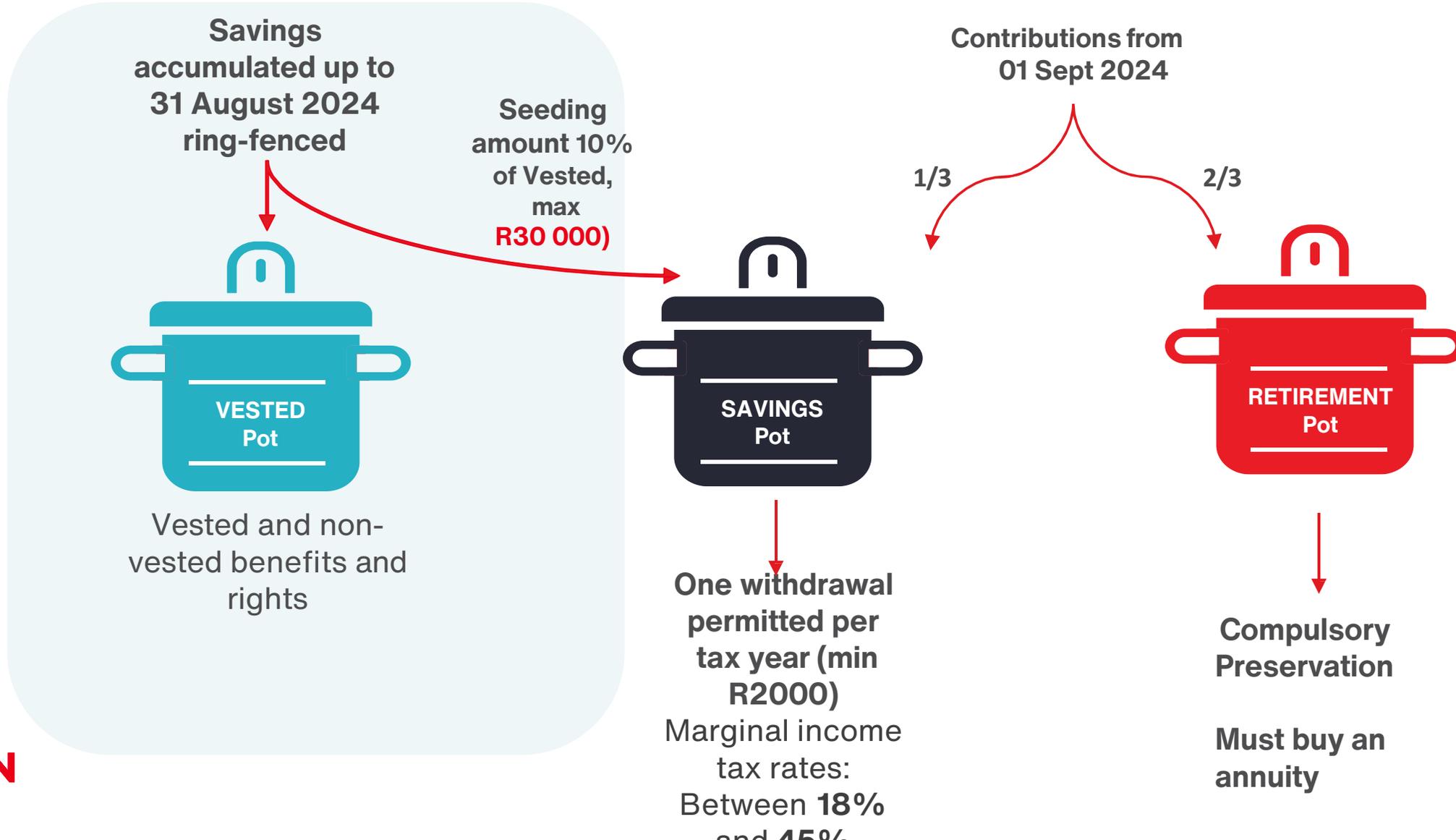
# Background

- Part of Retirement Funds Reform Process
- Idea stemmed from the Covid period
- Treasury introduced the Two-Pot concept to assist people in an **Emergency** situation
- 2-pronged approach – save for retirement and save for emergencies
- Fundamental change to the retirement funds industry
- Affect pension, provident and retirement annuities

# The Two-Pot system

- State President signed the Two-Pot system into law on 02 June 2024
- Implementation date is **01 Sept 2024**
- Moving Parts – rules need amending, SARS tax systems need to be ready
- On 01/9/2024: Retirement savings will be divided into:
  - **Vested pot** (**Vested** and **Non-vested** benefits (**protected rights**))
  - **Retirement pot**
  - **Savings pot**
- From 01 Sept 2024 monthly **contribution** (**after admin charges and risk premiums**):  
Invested: **Retirement (2/3)** and **Savings (1/3)** pots

# The Two-Pot system: 01 Sept 2024



# The different pots

- **Vested pot** (**Vested** and **Non-vested** benefits and rights):
  - When you leave your employer, you can:
    - Stay as a **paid-up** member of your fund
    - **Take** your money in cash
    - **Transfer** the money to another fund
- **Savings pot:**
  - You can withdraw, for emergencies, a **minimum of R2 000** (before fees and taxes) **once a tax year** without leaving your employer
  - You can **withdraw** when you resign or retire – or transfer
- **Retirement pot:**
  - You **can't withdraw** any money when you **leave** your employer.
  - This money **must** remain **invested** until your **retirement**
  - You must **buy a pension** when you retire



# How does it work: An example

- You have:
  - **R150 000** in your **retirement** savings on **31 August 2024**
  - Monthly net retirement **contribution** is **R900**
- **Vested pot** (**Vested** and **Non-vested** benefits and rights):
  - **R15 000** (10% of R150 000) will be transferred to your Savings pot.
  - The remaining retirement savings will be **R135 000**
  - **No further contributions** will go to your vested pot
  - Will continue to **grow**
- **Savings pot:**
  - **R15 000** (transferred from the Vested component)
  - **R300** of your contribution (1/3) will go to your Savings pot every month
- **Retirement pot:**
  - **R600** of your contribution (2/3) will go to your Retirement pot every month.

# At Retirement

- **Vested pot** (**Vested** and **Non-vested** benefits and rights):
  - When you retire, you can:
    - **Take** your money (vested part) in cash
    - **Purchase an income annuity**
- **Savings pot:**
  - **Take** your money in cash
  - **Purchase an income annuity**
- **Retirement pot:**
  - **Purchase an income annuity**
  - You may not take any of the money in cash unless the combined amount in your retirement component and two-thirds of your vested component (non-vested right) is R165 000 or less. Only then you can take all the money in cash



# Tax Rules Regarding Annuitisation of Provident Funds – Effective from 01 March 2021

In terms of the annuitisation rules, members of retirement vehicles, irrespective of whether the vehicle in question is a pension fund, provident fund or Retirement Annuity, will be subject to similar rules **regarding access to cash on retirement.**

With specific exceptions provided in the annuitisation provisions from 01 March 2021, members of all retirement funds **will only be able take one-third** of the total value of their retirement fund interest by way of a lump sum **at retirement with the balance being taken as an annuity.**

This is further subject to an exception where the total retirement interest does not exceed R247,500, **in which case the full amount may be taken in cash.**

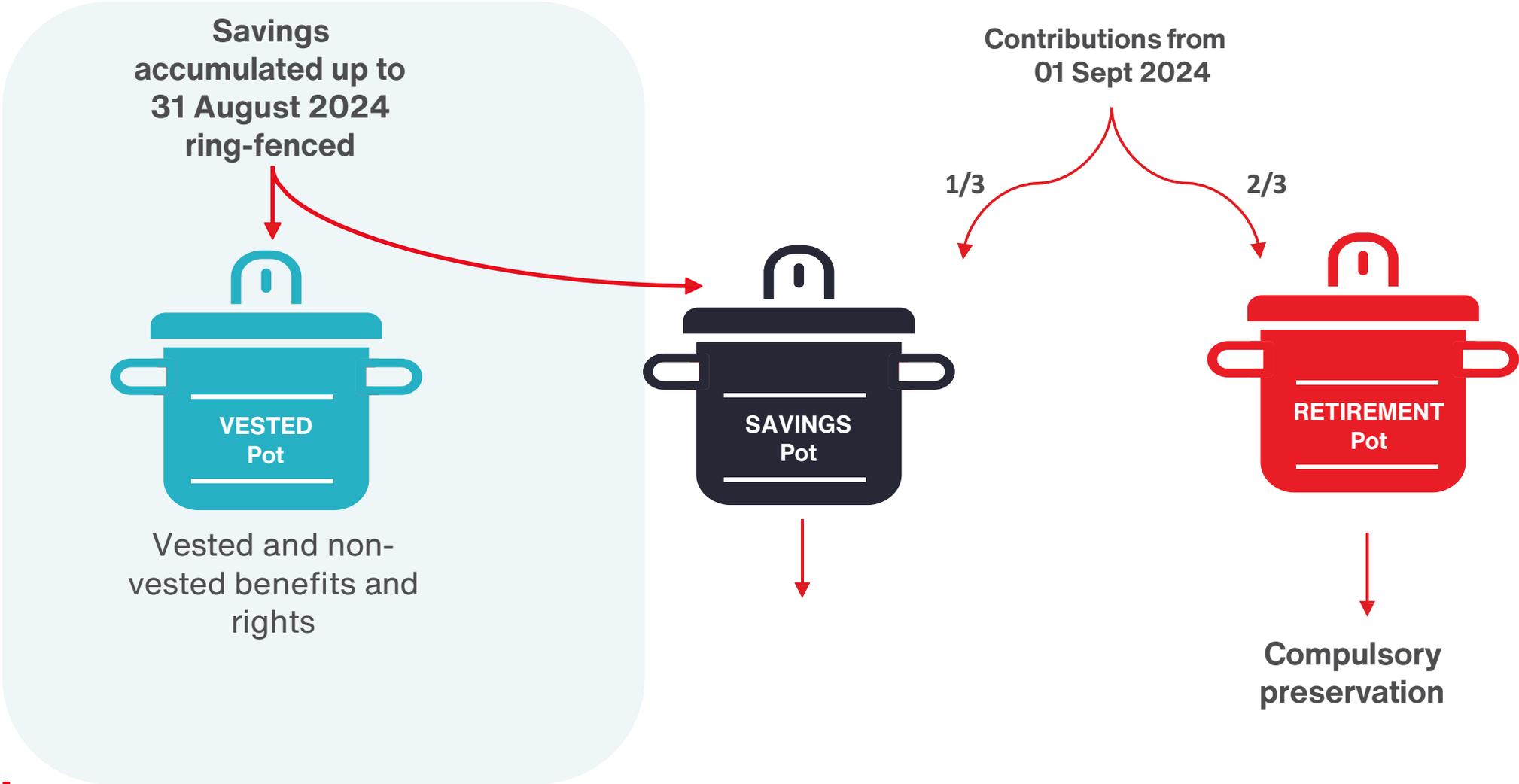
The new provisions exist to ensure that the restriction **will only apply to amounts contributed to funds on or after 01 March 2021 and not to members who are 55 and over, provided he/she remains in the same fund.**

# Impact on Members over the age of 55



- Provident Fund members who were age 55 or older on T-Day (1 March 2021) and still in the same provident fund, will be automatically excluded from the two-pot system, but can opt in.
- May choose to continue to contribute towards their vested benefits until exiting the fund or retirement.
- May elect to contribute to the savings and retirement components. Have 12 months to decide. Decision will be irrevocable.
- If elected, will need to contribute to the savings and retirement component, with no future contributions allowed to the vested component.

# What if I don't plan on accessing any monies?



# Living Annuity versus Life Annuity

	Living annuity	Life annuity
<b>Costs</b>	Ongoing - RIY start around 2% p.a.	Once off, maximum 1.50% + vat
<b>Tax implications</b>	First R 550 000 tax free, see retirement fund tax table	First R 550 000 tax free, see retirement fund tax table
<b>Accessibility &amp; liquidity</b>	Cannot access capital but annually change income between 2.5% - 17.5%	No access to capital, cannot change income annually
<b>Income</b>	Income is paid as a percentage of capital; annuitant carries investment risk.	Guaranteed for life – insurer carries investment risk
<b>Risk of outliving your money</b>	Yes	No
<b>Risk of inflation eroding your income</b>	Partially	Annuity type dependent
<b>Income tax</b>	According to PAYE tax tables	According to PAYE tax tables
<b>At death/leave inheritance</b>	Passes to nominated beneficiary	Depends on agreement at inception
<b>Change annuity type</b>	Flexible, can purchase life annuity at any time	Fixed and final, no changes allowed after inception

# Investment Strategy for All Pots

- Monies in all Pots will be invested as per your investment choice.
- No separate investment strategy for the different Pots at this stage.

# How will I Claim from my Savings Pot

- No employer intervention.
- Members must use the [Sanlam web portal](#) to claim or [submit claim via Employer portal](#)
- Make sure your employer has your correct personal details eg. surname changes, contact details and tax number. at this stage.
- Monies will be paid directly into your bank account (after tax implications).
- [10 to 15 Business days to process claim](#), provided no tax issues.

# Additional Voluntary Contributions (AVCs)

- From 01 Sept 2024 AVCs will be invested as follows:
  - Invested: **Retirement pot (2/3)** and **Savings pot (1/3)**
- The contribution **split** is **compulsory**: Same split for:
  - Contributions in excess of the **tax-deductible** amount of 27.5% (R350 000 annual cap)

# What happens on a member's death

- Your death benefit **beneficiaries** will:
  - Become **entitled** to the money in **all** the **pots** (Vested, Saving and Retirement)
  - Remain entitled to choose to **take** the **benefit** as a **lump sum** or as a **pension** or as a combination thereof.
- Any **lump sum death benefit** will be taxed in terms of the **retirement lump sum tax table**
- **Pension payments** will be **taxed** as **income** in the hands of your **beneficiaries**

## Section 37D Deductions

These deductions include divorce and maintenance order deductions, housing loans and employer compensation due to the fraud, theft, dishonesty or misconduct of a member.

Deductions in relation to the above will be applied proportionately across all three pots.

## SARS IT 88 Deductions

When you apply for a withdrawal from the Savings Pot, IT 88 deductions will apply if you owe SARS any monies (such as outstanding penalties, interest, etc).

Deductions will be automatically offset from the withdrawal amount.

## Important to Note

Be extra cautious when considering accessing your Savings Pot each year.

It will negatively impact your retirement outcome if savings monies are eroded each year.

The purpose of this system is to allow members access to monies for Emergency Purposes **ONLY**.

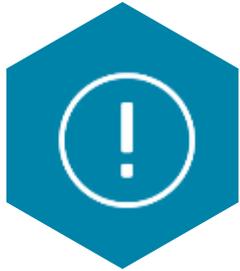
Remember that you will pay tax at your marginal rate should you access any monies.

You will incur administration costs for any early access to monies.

Seek financial assistance when considering accessing your savings pot.

# Financial Planning

## Why is it important for saving towards retirement?



- Currently, 94% of South Africans will not be able to retire financially independent.



- Most are dependent on their family or State Pension

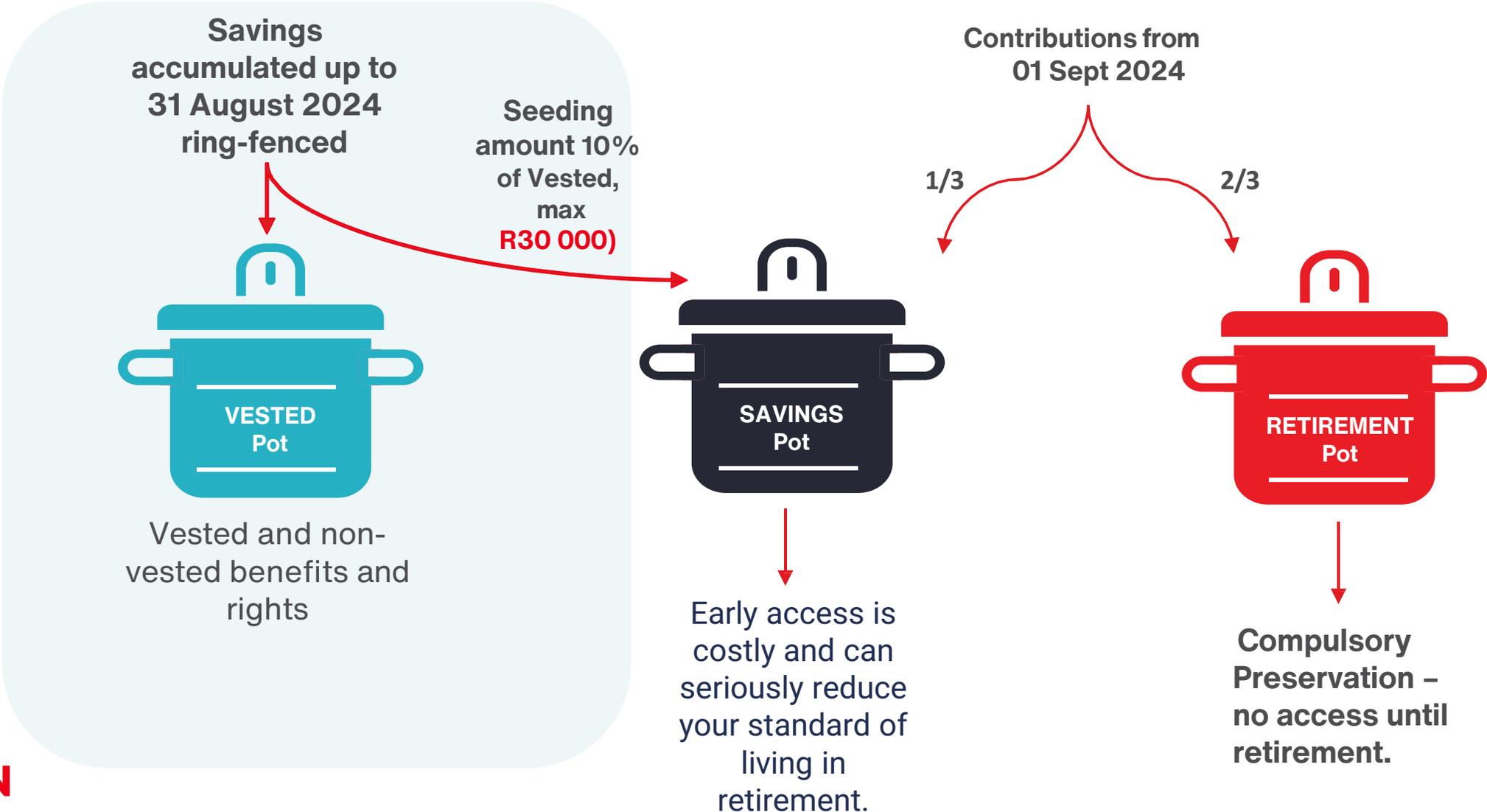


- Many are forced to continue working



- Inflation is eroding the purchasing power of your money

# In Summary: The Two-Pot system from 01 Sept 2024



# Early access is borrowing from your future self

Withdrawing early effectively means that you are borrowing from your future self

To illustrate this, let's assume you are 35 years old and intend to retire at age 65.

Any R1 accessed through an early withdrawal may cost you R30 in lost retirement benefits at the time of retirement.

In other words, by resisting the urge to access your savings early, your money could have multiplied by a factor of 30 over the three decades until retirement.

SARS will be the  
BIGGEST WINNERS from  
the 2 Pot System

## Sir Albert Einstein – Compound Interest

**‘Compound interest is the eighth wonder of the world. He who understands it, earns it ... he who doesn't ... pays it. Compound interest is the most powerful force in the universe.’**

Questions?

# Thank You

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