



Welcome

UPDATE ON THE PROPOSED TWO POT SYSTEM

FEBRUARY 2024

Presented by the Principal
Officer's Office





Agenda

- > Background to why the 2 Pot system is being introduced
- > Current status of the implementation
- > How will the 2 Pot system work?



Agenda

- > Things to consider as a member
- > Next steps in terms of the NTRF
- > Questions



Why a need to amend regulations?



The country has a poor savings habit. Only 6% of the population can retire comfortably. Members “cashing out” when they change employment is a major contributing factor.



In tough economic times, particularly linked to COVID, members could not afford to feed their families while they had assets “locked into” their retirement funds. Some members even resigned to be able to access these funds.



Retirement savings are for retirement!

A need to align the different retirement savings vehicles.
Currently you cannot withdraw from a retirement annuity before age 55.

Other issues to consider:

- Due to compound interest, saving for 20 years is not half of saving for 40 years.
- The issue of full withdrawal at retirement was addressed in 2021.
- The country cannot afford to provide state pensions at the required level



Consumers under financial pressure

Despite COVID restrictions no longer applying the consumer faces considerable financial pressure

Other issues to consider:

- Those who are employed are needing to provide support for a large number of unemployed people.
- Debt accumulated during the COVID period needs to be addressed.
- For many salaries have not kept pace with food inflation.



DEVELOPMENTS TO DATE

- Proposal and draft details were circulated to the industry for comment.
- These included a proposed implementation date of 1 March 2024, which was a date communicated to the public by financial media.
- While the industry accepted the high level principles, there were many details that had not been addressed and required clarification. These discussions dragged on as not all parties were aligned.
- Before implementation there needed to be changes to regulations and these first required agreement on certain key details



DEVELOPMENTS TO DATE

- On 1 November 2023, Treasury released another draft version of the Revenue Laws Amendment Bill (RLAB), which is the draft legislation that contains the two-pot system legislation.
- It was clear that the 1 March 2024 deadline was not achievable, and it was suggested that this be delayed to 1 March 2025.
- The Standing Committee on Finance objected and wanted the 1 March 2024 date to stand.
- After further discussion an implementation date of 1 September 2024 seems most likely.



DEVELOPMENTS TO DATE

- The Minister of Finance published the Pension Funds Amendment Bill on 30 January 2024, to amend the Pension Funds Act 1956 by inserting certain enabling definitions.
- It was anticipated that both the RLAB and Pension Funds Bill will be tabled early February 2024 when Parliament reconvenes.
- We still await the required amendments to the Income Tax Act of 1962



DEVELOPMENTS TO FOLLOW

- The Standing Committee on Finance met on 6th February 2024, and the next steps are:
 - 12 March : for public hearings to take place on the Pensions Bill
 - 19 March : for National Treasury to respond to SCoF submissions
 - 26 March : for the National assembly to consider on a clause by clause basis.
- The intention is to have the Pensions Bill finalised by 31 March 2024.



BEFORE IMPLEMENTATION

- Apart from the legislative changes, retirement Funds have a number of issues to address before implementation:
 - Fund Rules will need to be amended to align with the revised regulations. (critical). (**)
 - Revised administrative processes need to be implemented (and secure from fraud!!)
 - Administration systems need to be amended to record the different pots etc.
 - All documentation need to be amended
 - Amendments to service level agreements with service providers, especially housing loan agreements with banks.
- Thankfully work has commenced on these issues and so just need “tweaks” once the final details are confirmed by regulations.



REVISED FUND RULES

- On Friday 16th February the FSCA issued Communication 3 of 2024 (RF) and this outlined the requirements in terms of Rule Amendments.
- They have instructed Funds to only make the amendments linked to the 2 Pot implementation and not to include other changes, to speed up the approval process.



HOW WILL THE 2 POT SYSTEM WORK?

- Access of retirement fund monies in return for enforced preservation of the remainder;
 - Vested pot – value of savings as at effective date (1 September 2024)
 - Savings pot – up to 1/3rd of on-going net contributions
 - Retirement pot – 2/3^{rds} of on-going net contributions



The VESTED Pot

- Value as at effective date (1 September 2024) less the transfer to the Savings pot.
- The transfer to the savings pot will happen automatically. (you do not need to apply).
- Vesting pot retains the current “rules”, and is thus available as a withdrawal benefit prior to retirement.



The Savings Pot

- Seeding – 10% as at 1/9/24 up to a max of R30 000
- One withdrawal per annum, minimum of R2 000.
- Withdrawals will be taxed at marginal rates.



The Savings Pot : tax on withdrawals

- Tax is NOT as per the retirement fund tax tables.
- Tax does not “count towards” any tax free limits.
- Tax will be at your marginal rate.
- SARS to provide the Fund with rate to deduct.
- Adjustment with your final tax return.



The Retirement Pot

- No withdrawal prior to retirement.
- The only exception is on financial emigration and is subject to the latest conditions.



YOUR INVESTMENT STRATEGY

- Currently there is no planned change and existing investment choices will apply to all three POTS.
- The Board of Trustees to confirm if members can elect different strategies for different POTS.
- Current thinking is to allow a different strategy for the savings pot only.



CONDITIONAL RETIREMENT MEMBERS

- Same principal will apply.
- Any withdrawal from the savings pot will effectively reduce the underlying guarantee
- Details to be communicated.



THINGS TO CONSIDER AS A MEMBER

- It's tempting to dip into these funds for short-term needs or desires, but doing so can lead to a challenging retirement.
- The savings pot should only be used for **financial emergencies**, emergency medical expenses for a life-threatening medical procedure etc, not for a holiday or a new car.
- Retirement Savings remains a priority



WHAT WILL HAPPEN BETWEEN NOW AND SEPTEMBER

- As the regulatory processes progress we will keep you informed, particularly if the effective date changes.
- Once the regulations are finalised, we will be able to finalise the various processes and these will be communicated to you.
- Please note that if the effective date remains 1 September and you apply to withdraw the R30 000 seed capital, it is unlikely to be paid out before mid October!



ISSUES BEING CLARIFIED

SECTION 37D DEDUCTIONS TO BE MADE PROPORTIONATELY FROM ALL THREE POTS

Section 37 deductions are those deductions that can be made from benefits or fund credits related to housing loans/ guarantees, maintenance orders, divorce orders and theft/fraud/dishonesty at the employer. Previously the RLAB contained provisions which meant that these deductions could be made from the retirement pot and vested pot, but not the savings pot. In the revised draft RLAB, deductions can be made proportionately from all three pots, including the savings pot.



ISSUES BEING CLARIFIED

A NON-MEMBER SPOUSE'S PENSION INTEREST

After a divorce, when a non-member spouse decides to transfer the pension interest allocated to them to another fund, it is transferred from the same pot in the transferring fund to same pot in the receiving fund (savings pot to savings pot, vested pot to vested pot and retirement pot to retirement pot), or from the vested or savings pot in the transferring fund to the retirement pot in the receiving fund. This is the decision of the non-member spouse.



ISSUES BEING CLARIFIED

Death benefits : Treasury intends to keep the current position in relation to death benefits. After the two-pot system is implemented, beneficiaries would still be able to take their whole death benefit allocation either as an annuity or as a cash lump sum, depending on what they decide.



Questions





Fund Contact Information

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