NATIONAL TERTIARY RETIREMENT FUND

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Welcome

THE PROPOSED TWO POT SYSTEM EXAMPLES

APRIL 2024

Presented by the Principal Officer’s Office

Agenda

- Reminder as to why the 2 Pot system is being introduced
- Current status of the implementation
- Example one : Serial withdrawer

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Agenda

- Example two : Emergency need withdrawer
- Withdrawals and retirements
- 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.

DEVELOPMENTS TO DATE

- Key regulatory changes have been tabled at parliament.
- It is unlikely that the final bills will be approved as Acts of parliament before they break for the elections, they should be approved post elections in late June / early July.
- The effective date of 1 September 2024 seems highly likely, although not 100% guaranteed.
- The industry is getting prepared but certain actions can only take place once the regulations are officially Acts of parliament.

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.

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 – 1/3rd of on-going net contributions
  - Retirement pot – 2/3rds 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.

EXAMPLE 1 : THE SERIAL WITHDRAWER

Assumed:

- Fund credit at 31 August 2024 is R2 300 000.
- Salary is R100 000 a month
- Flex risk category of 2%. (hence 21.75% of salary to savings)

EXAMPLE 1 : THE SERIAL WITHDRAWER

As at 1 September (post seeding transfer):

- Vested pot balance : R2 270 000 (being R2.3 million less R30 000)
- Savings pot balance : R30 000
- Retirement pot balance : R0

If the member only had a fund credit of R240 000, the transfer to the savings pot would only have been R24 000.

EXAMPLE 1 : THE SERIAL WITHDRAWER

Member can request a withdrawal from their savings pot.
Minimum R2 000. Maximum is the balance in the savings pot.
This would be their one withdrawal in the tax year (no more withdrawals until after 28 February 2025).
Tax at the marginal rate of tax.

EXAMPLE 1 : THE SERIAL WITHDRAWER

1 – 237 100	18% of taxable income
237 101 – 370 500	42 678 + 26% of taxable income above 237 100
370 501 – 512 800	77 362 + 31% of taxable income above 370 500
512 801 – 673 000	121 475 + 36% of taxable income above 512 800
673 001 – 857 900	179 147 + 39% of taxable income above 673 000
857 901 – 1 817 000	251 258 + 41% of taxable income above 857 900
1 817 001 and above	644 489 + 45% of taxable income above 1 817 000

EXAMPLE 1 : THE SERIAL WITHDRAWER

Assume they selected R30 000 withdrawal, and if the marginal tax rate is 41%, the net amount is R17 700. (less any admin fee if one is to be levied).

NOTE: if the members annual taxable income was R750 000 the marginal tax rate would be 39% and the R30 000 withdrawal would result in a net payment of R18 300.

Also note that for each withdrawal SARS will advise the tax rate to be deducted. There can be an adjustment at the end of the tax year if the tax rate used ends up being incorrect.

EXAMPLE 1 : THE SERIAL WITHDRAWER

Monthly contribution to retirement savings:

21.75% of R100 000 = R21 750.

This will be allocated :

Savings Pot (1/3rd) = R7 250

Retirement Pot (2/3rds) = R14 500

EXAMPLE 1 : THE SERIAL WITHDRAWER

By 28 February 2025, there will have been 6 more months contributions paid (September 2024 to February 2025).

Assume the Savings pot balance is now R45 000 (being R7 250 x 6 plus investment return). Note the investment return could be negative!

On 1 March the member can request a withdrawal from the savings pot.
Again the minimum is R2 000, the maximum is the current balance (R45 000).
If they make a withdrawal they cannot make another withdrawal until March 2026.

Tax will again be at the marginal tax rate. If this is 41% the payment on R45 000 would be R26 550.

EXAMPLE 2 : EMERGENCY NEEDS WITHDRAWER

- The member will still have the seed capital (10% with a maximum of R30 000) transferred to their savings pot on 1 September 2024.

Hence as at 1 September (post seeding transfer):

- Vested pot balance : R2 270 000 (being R2.3 million less R30 000)
- Savings pot balance : R30 000
- Retirement pot balance : R0

EXAMPLE 2 : EMERGENCY NEEDS WITHDRAWER

- Assume the member does not make a withdrawal, and allow for some investment growth, the position at 1 November 2025 may look like this:
    - Vested pot balance : R2 590 000 (being R2 270 000 plus growth)
    - Savings pot balance : R145 000 (being R30 000 plus 14 x R7250 plus growth)
    - Retirement pot balance : R225 000 (being 14 x R14 500 plus growth)
- Total balance : R2 960 000

EXAMPLE 2 : EMERGENCY NEEDS WITHDRAWER

- Member has an emergency situation in November 2025, and requires R50 000.
- They can request a withdrawal from their savings account (minimum R2 000, maximum the balance of R145 000).
- Tax will be at the marginal rate.
- If tax is 41%, they would need to request a withdrawal of R84 745.
- Only one withdrawal in a tax year.

EXAMPLE 2 : EMERGENCY NEEDS WITHDRAWER

Position past the withdrawal benefit would be:

- Vested pot balance : R2 590 000)
- Savings pot balance : R60 255 (being R145 000 less the R84 745)
- Retirement pot balance : R225 000

- Total balance : R2 875 255

OTHER POINTS TO HIGHLIGHT

- These withdrawals while still employed are limited to the Savings pot.
  - Only one withdrawal in a tax year
  - Minimum is R2 000, maximum is the balance in the savings pot.
  - Marginal tax is per the individual. The 41% in this presentation was based on a member earning R100 000 a month.
  - Investment returns can be negative.
  - The more you withdraw before retirement the worse the retirement outcome.

WITHDRAWAL FROM EMPLOYMENT

- The approach to the three pots is as follows:
  - Vested pot. Old money and subject to old rules. Withdrawal can be preserved (nil tax directive if transferred) or cash benefit subject to tax as per the withdrawal tax tables (see next slide).
  - Savings pot. Subject to the same rules as other savings pot withdrawals. One per tax year and taxed at marginal rate. Or can be preserved.
  - Retirement Pot. Must be preserved, either in the NTRF or transferred to another retirement fund (nil tax directive).

TAX ON WITHDRAWALS FROM VESTED POT

1 – 27 500	0% of taxable income
27 501 – 726 000	18% of taxable income above 27 500
726 001 – 1 089 000	125 730 + 27% of taxable income above 726 000
1 089 001 and above	223 740 + 36% of taxable income above 1 089 000

TAX ON WITHDRAWALS FROM VESTED POT

- Note that in applying the tax table, SARS will consider all previous withdrawals from retirement Funds. The withdrawals from the savings pot are not included!
- You only get the benefit of the R27 500 tax free ONCE!
- The withdrawal may only be R200 000, but you could still be taxed at 36%!

RETIREMENT

The approach to the three pots is as follows:

Vested pot. Old money and subject to old rules. Up to 1/3rd can be taken as a cash benefit subject to tax as per the retirement tax tables (see next slide). Balance must be used to purchase an annuity.
Savings pot. Subject to the same rules as other savings pot withdrawals. One per tax year and taxed at marginal rate. Or can be transferred to the Retirement Pot and used to purchase an annuity.
Retirement Pot. Must be used to purchase an annuity.

TAX ON CASH FROM THE VESTING POT AT RETIREMENT

1 – 550 000	0% of taxable income
550 001 – 770 000	18% of taxable income above 550 000
770 001 – 1 155 000	39 600 + 27% of taxable income above 770 000
1 155 001 and above	143 550 + 36% of taxable income above 1 155 000

Note : Previous retirement lump sums are taken into account.

ISSUES BEING CLARIFIED

Divorce orders.
It would seem the intention is for the non member spouse to receive the % share in each pot.
They could thus withdraw from the vested pot and the savings pot subject to tax.
They would still have a retirement pot which they cannot access until retirement.

This will require change to the legislation relating to divorce orders.

Questions

NTRF
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Fund Contact Information

Member Website: www.ntrf.co.za

OFFICE OF THE PRINCIPAL OFFICER (Management of the Fund) Contact the Principal Officer for all escalations of queries		
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ADMINISTRATOR (Administrative matters) Contact the Fund Administrator for all investment and claim queries and other admin-related queries		
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Fund Retirement Administrators The Marc 129 Rivonia Rd Sandown Sandton	0860 000 071	NTRF@momentum.co.za