NATIONAL TERTIARY RETIREMENT FUND

Fund Update

An update on the proposed

“two-pot” system

On 9 June 2023, the National Treasury unveiled changes to the proposed “two-pot” retirement system, which are detailed in the updated draft of the Revenue Laws Amendment Bill (originally released in July 2022) and the proposed amendments to the Pension Funds Act. The draft legislation includes a name change from “pot” to “component”, but “pot” is still often used when describing the way the proposal will work. This system is expected to become operative from 1 March 2024.

The main objectives of this proposed law are twofold:

Firstly, it allows retirement fund members to withdraw a portion of their savings during times of hardship, while still employed.

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Secondly, it encourages greater savings preservation for pension provision upon retirement.

This proposed legislation will only impact future retirement savings, derived from contributions made after implementation date, either by the employee or the employer. It does not affect your current retirement savings or any returns you earn thereon (known as the “vested component”). This portion will continue to be regulated under current tax laws and legislation, allowing members the option to cash out the full vested component (taxable) when changing jobs.

The two-pot proposal divides your new retirement contributions (i.e. all contributions made after implementation date) into a “savings component” (one-third) and a “retirement component” (two-thirds).

- Members will be permitted to withdraw once per tax year from the **“savings component”**, subject to a minimum of **R2 000**, and taxable at the member’s income tax rate.
- The **“retirement component”** will be inaccessible until retirement, whereupon it must be used to purchase a pension, unless its value, combined with two-thirds of the **“vested component”**, is below the de minimis amount of **R165 000**.

Once the legislation is ratified, members will also be able to transfer a part of their vested component to their savings component, referred to as “seed capital”, allowing immediate access to some retirement savings. Currently, the proposed “seed capital” is capped at R25 000 or 10% of the vested component, whichever is less, though this may change with the final legislation.

The proposal has a considerable journey before it is presented to Parliament, involving comment receipt, public workshops, stakeholder engagement, committee hearings, and bill revisions. Once approved by Parliament, the legislation must be signed into law by the President.

Retirement funds and administrators will face a challenging task to implement these changes by the effective date. They will need to modify their rules and systems, ensure their partners are trained on the changes, and get approval from the Financial Sector Conduct Authority.

For now, as a Fund member, no immediate action is required on your part. The Fund will continue to update members as the final legislation takes shape. Your retirement savings remain secure.