



Welcome

THE TWO POT SYSTEM

AUGUST 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
- > Defining the Pots



Agenda

- > Impact on benefit payments
- > Example one : Serial withdrawer
- > Example two : Emergency need withdrawer



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.



IT IS A BALANCING ACT



PRESERVATION

- **Insufficient preservation** - members leave employment and cash out their retirement savings
- Encouraging South Africans to save more for retirement
- Need some measure of compulsory preservation for retirement



ACCESS TO MONIES IN AN EMERGENCY

- Members of funds can **only access their retirement savings (pre-retirement) if they resign** from employment
- Allowing South Africans to access a **portion** of their **retirement savings** in retirement funds without leaving employment
- Break the **employment link**
- Allows **emergency access to Funds**



RELATED ISSUES

- The Regulator aims to align the various retirement funding vehicles. The tax treatment of contributions and access to cash at retirement have been addressed.
- This change address the issue of access prior to retirement. Note that Retirement Annuities cannot pay out prior to age 55 unless due to ill health.
- Also note that the government cannot afford to provide state pensions at a reasonable level. The state needs individuals to provide for their own retirement needs.



STATUS OF REGULATION CHANGES

All the required legislation is in place

- The Two Pot System will be effective on **1 September 2024**.
- The Revenue Laws Amendment Act, 12 of 2024, which introduces the two-pot system, was signed into law on 1 June 2024, by President Cyril Ramaphosa.
- Amendments to the Pensions Funds Act have now also been signed



STATUS OF FUND READINESS

- Fund Rule amendment has been submitted to the FSCA and should be approved before 31 August 2024.
- System changes have been made to administer the different Pots.
- Ready to process the Seed capital transfer, although this cannot commence until the 31 August 2024 member values are finalised.
- Process to pay savings pot withdrawals is in place, including links to SARS for tax directives.



HOW WILL THE 2 POT SYSTEM WORK?

The **Two-Pot System** splits your new & ongoing contributions post September 2024 into:

1. Money for **retirement**, which will be used to secure a pension only (Retirement Pot);
2. A **savings pot**, that members can access **once a year** for emergencies.

(Pot and Components = Same – legislation uses component, but Media uses pots)

New Monies – New rules

There is also a **Vested pot**, all of your **Old monies** in your retirement Fund before the implementation of the system. **Old Monies – Old rules.**

This approach offers a novel approach to retirement savings, **blending flexibility** with **preservation of retirement savings** and **access to cash** in emergencies.

However, it's essential to use this flexibility wisely





HOW WILL THE 2 POT SYSTEM WORK?

The Pots

31 August 2024

1 September 2024

New contributions
(net allocated to Retirement Savings)

2/3rds

1/3 rd

VESTED POT YOUR OLD SAVINGS

This pot will stay invested and continue to grow with investment returns.



You will only be able to access this money when you exit the Fund.

Old Monies Old Rules

TWO THIRDS OF YOUR NEW SAVINGS

Two thirds of your new savings that you cannot access. Two thirds of your new contributions will go to this pot.



*You will only be able to access this money when you **retire**.*

New Monies New Rules

ONE THIRD OF YOUR NEW SAVINGS

One third of your new savings that you can access, if you want to, once a year. If you don't withdraw this money, it will carry over.



One third of your new contributions will go to this pot.

New Monies New Rules



The VESTED Pot

- Value as at effective date (1 September 2024) less the once off 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 VESTED Pot

- The Vesting Pot cannot receive new contributions, nor transfers from the other pots.
- The Vesting Pot can only receive transfers from other Funds of Vested Pot money.
- Old Rules will apply to the Vested Pot in terms of benefit payments.



The Savings Pot

The Savings Pot is established with a seed funding transfer from the Vested Pot.

The Savings Pot also receives 1/3rd of all contributions received after 1 September 2024.

- The savings pot is the basis for savings pot withdrawals.
- It can receive transfers IN from the savings pots of other Funds.
- Transfers can be made to the Retirement Pot.



SEED FUNDING

A transfer will be made from the Vested Pot to the Savings Pot on 1 September 2024.

The transfer will be the lower of R30 000 or 10% of the members fund credit.

- This is a once off transfer.
- The transfer is automatic and you do not need to request it.



The Retirement Pot

The Retirement Pot does not have any seed funding and commences with a nil value.

The Retirement Pot receives 2/3rd of all contributions received after 1 September 2024.

- The retirement pot can receive retirement pot transfers from other Funds.
- The retirement pot can receive transfers from the vested pot or the savings pot.
- Retirement pot assets can **ONLY** be withdrawn at retirement and only as an annuity.



BENEFIT PAYMENTS

- Savings Pot withdrawals
- Withdrawal prior to retirement
- Death benefits
- Retirement benefits



SAVINGS POT WITHDRAWALS

A member can withdraw the balance (or part) of their savings pot subject to the following conditions:

- Only one withdrawal in a tax year.
- No withdrawals under R2 000
- Tax will be at the members marginal tax rate.
- Will be subject to an administration fee (NTRF charge R250)
- May be subject to other claims on the savings, eg divorce orders, home loan guarantees, maintenance orders etc



BENEFIT PAYMENTS

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 an admin fee of R250).

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 (less R250 administration fee).



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. (slightly more if they allow for the R250 admin fee)
- Only one withdrawal in a tax year. Next withdrawal could only be after 1 March 2026.



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

- For the vesting pot the “old rules” apply, and a member can elect to receive the full benefit in cash subject to tax as per the retirement fund withdrawal table.
- For the savings pot, the member can elect to receive the benefit in cash (unless they have already had a savings pot withdrawal in that tax year), subject to tax at the members marginal rate of tax.
- For the retirement pot the member cannot receive cash and must retain the savings either in the existing Fund or in another retirement funding vehicle.



TAX ON WITHDRAWALS FROM VESTED POT

R1 – 27 500	0% of taxable income
R27 501 – 726 000	18% of taxable income above 27 500
R726 001 – 1 089 000	125 730 + 27% of taxable income above 726 000
R1 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%!



DEATH BENEFITS

- The approach to death benefits remains unchanged.
- The gross death benefit is the insured cover plus the sum of the various Pots.
- The Trustees will allocate the benefit as per Section 37C and the beneficiaries can elect a lump sum cash or an annuity.
- The cash lump sums will be taxed.



RETIREMENT

- For the vesting pot the “old rules” apply and a member can elect to receive up to 1/3rd in cash subject to tax as per the retirement fund retirement table. The balance to purchase an annuity
- For the savings pot, the member can elect to receive the benefit in cash subject to tax at the retirement table tax rate.
- For the retirement pot the member only receive the benefit via a purchased annuity (although the de minimus rule will apply)



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.



OTHER ISSUES

- Divorces orders
- Home loans
- Employer recoveries (37D)
- Transfers to other Funds (Sec 14)





OTHER ISSUES

- Be aware of the timing of Savings pot withdrawals.
- While effective 1 September the process will be:
- Need to confirm 1 September unit price.
- Need to allocate August contributions
- Process the seed capital transfer
- Apply for tax directive for each application
- Process payment

There will be delays particularly with SARS, so payment may be only in October.



IF YOU NEED ASSISTANCE

Would you like to speak with a person on the complexities of 2 pot and retirement? The fund has appointed Benefit Counsellors for exactly this purpose.

If you book a session in August you will also get a free cappuccino from Vida Coffee.

Here is how to book a session, or email ntrf@benefitcounsellor.com



BOOKING A SESSION



How to book a Benefit Counselling Session

Step 1:
Visit ntrf.co.za

Click here



Click here

Step 2:
Register and login



Click here

Step 3:
Select "Ask Somone" and then
Select "Ask a Benefit Counsellor [free]"



Step 4:
Book a Virtual Counselling Session





Questions





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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