NATIONAL TERTIARY RETIREMENT FUND

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TWO POT SYSTEM – What we know so far…

MEMBER WEBINAR

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POSTPONED?

NATIONAL TREASURY HAS PROPOSED THAT THE 2 POT SYSTEM BE POSTPONED TO

MARCH 2025

BUT THIS IS MAY NOT HAPPEN!!

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STATUS OF THE LEGISLATION CHANGES

- Draft legislation has been circulated and discussed by various role players.
- Many of the issues appear to have been accepted, and are unlikely to change.
- The biggest issues outstanding are the implementation date and the amount of the seed capital.

IMPLEMENTATION DATE

- The original date was 1 March 2024.
- National Treasury recently presented to parliament and proposed a revised implementation date of 1 March 2025.
- Labour / Unions are not at all happy and are pushing for an earlier implementation date.
- The SCoF (Standing Committee of Finance) hearing in Parliament to discuss and approve the two-pot legislation was held on 21 November 2023. The uniform agreement was that the implementation date of the two-pot retirement system must be **1 March 2024**.

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IMPLEMENTATION DATE

The next step:

- The SCoF findings report will to be sent to the Minister of Finance regarding the 1 March 2024 implementation date.
- The Minister then has 14 days to indicate his agreement **BUT** the Minister cannot override the SCoF finding. His response will form part of the report on the implementation date to be considered by the National Assembly in Parliament.
- Talk of a compliance period but not sure how that would work.
- Is SARS ready? Can the FSCA handle Rule amendments?
- Is a middle ground (eg August 2024) practical?

BACKGROUND

- The intention is to address to key issues facing the industry and its members:

  - Only 6 % of South Africans are adequately provided for at retirement.
  - Many South Africans have been financially impacted by the combined impact of COVID, global conflicts and a global economic downturn.

IMPROVED RETIREMENT FUNDING

- A major contributing factor is that on changing jobs people are taking their withdrawal benefit as a taxed cash lump sum.

- The end result is that many people reach retirement with only 15 years of retirement savings accumulated and not 40 years of contributions (and compound interest / growth).

ACCESS TO CASH

- Many South Africans are battling to feed their families, while they have an asset in their retirement fund which they cannot access.

- In desperation employees are resigning from their jobs to access their retirement savings to feed their families.

- Retirement savings are of no use if a member does not reach retirement.

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AIM OF REGULATIONS

- The aim of the proposed legislative changes are to allow a degree of access to retirement fund assets without terminating employment

And

- “Locking in” retirement savings until retirement (to a degree)

These objectives are in direct conflict with each other - and the aim is to strike an appropriate balance.

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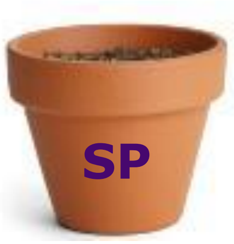
THIS PRESENTATION

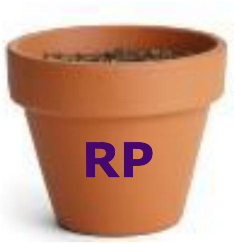
- This presentation is intended to provide a high level understanding of the issue.
- Once regulations are finalised and signed off by parliament there will be more detailed presentations.
- The subsequent presentation will also cover any related administrative processes.

TWO POT OR THREE POT?

VESTED POT



SAVINGS POT



RETIREMENT POT

VESTED POT

- **Vested Pot (Component)** –Fund Credit as of implementation (possibly 28 February 2025) minus Seeding Capital

- **Seeding Capital** is the lower of R30 000 or 10% of your Fund Credit at that date.

- **The Vested pot** is subject to old rules applicable BEFORE the implementation date. Thus, for example, on resignation the Fund Credit in this pot is still available as a withdrawal benefit (subject to the current withdrawal tax tables).

SAVINGS POT

- Savings Component –Seeding Capital plus 1/3rd of retirement savings from implementation date (possibly 1 March 2025)
- Members can make 1 withdrawal per annum (most likely to be defined as the tax year).
- Minimum withdrawal of R2 000.
- Fund administrators can levy an administration / withdrawal processing fee.
- Withdrawal to be taxed at marginal tax rates.

RETIREMENT POT

- **Retirement Pot (Component)** –2/3rd of retirement savings from implementation date (possibly1 March 2025).
- Starts with a zero balance.
- Balance in this pot is only accessible at retirement, even if the member changes employment or ceases employment!

SEEDING CAPITAL

- **Seeding Capital** is R30 000 or 10% of Fund credit (the lower of the two)
- The R30 000 may differ once the regulations are finalized.
- The transfer from the VESTED POT to the SAVINGS POT on implementation will be automatic except possible members over age 55 (see later).

ON WITHDRAWAL

- **VESTED POT** : Can withdraw (withdrawal tax table) or can preserve.

- **SAVINGS POT** : Can withdraw (marginal tax rate unless already used your one withdrawal that year) or can be preserved.

- **RETIREMENT POT** : Must be preserved.

ON RETIREMENT

- Options in terms of life and living annuities remain the same.

- Cash available will be:
  - 1/3rd of the value in the vested pot
  - 0% of the retirement pot
  - 100% of the savings pot.

- Total cash limited to 1/3rd of the total retirement benefit

CASH WITHDRAWALS

- Process to make a cash withdrawal from the savings pot will be communicated once the regulations are finalised.
- Process may not be as quick as you expect, but the industry are aware of fraudsters and are building in various security checks!!
- Cash withdrawals were intended to assist those in desperate situations and to assist in emergency situations.
- Remember the impact that withdrawals have on your retirement provision.

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INVESTMENT OPTIONS

- Trustees have approved the retention of the current default as it is and will review in a year.
- Currently all members more than 8 years from retirement is defaulted to the Long Term Capital portfolio which is suitable for investments with a longer horizon.
- This may not be appropriate for members who intend to “cash out” their savings pot each year. Members will be able to select a conservative portfolio for their savings pot only, and still remain in the Trustee default for the balance.
- Member’s ability to “opt out” of Trustees default investment strategy may become a bigger issue.

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INVESTMENT OPTIONS

- Probable approach (subject to rule amendments):
  - Category 1: Fail to exercise a choice – Life stage model (LSM)
  - Category 2: Part choice – LSM for Vested and Retirement Pots; Money Market for Savings Pot – active choice for members planning to taking regular drawdowns from Savings Account.
  - Category 3: Own choice – can make a choice for Vested, Retirement and Savings Pot

CONDITIONAL RETIREMENT AND FIXED RISK MEMBERS

- These members have benefits which are similar to defined benefit outcomes.

- The funding of a cash withdrawal will be done in a specific way to avoid touching the part of the fund credit that is required to fund the NTRF's part of any conditional retirement benefit or the fixed risk benefit. However if not sufficient, the benefit will be adjusted.

- This will require a rule amendment.

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OTHER ISSUES

- Currently it seems the approach to a Divorce scenario remains unchanged, with the benefit paid being pro rata across the three pots but this may well change. We await clarity.

- For those whose employers have entered into pension backed home loan arrangements, the maximum loan amount will be calculated excluding any assets in the Savings pot.

MEMBERS OVER AGE 55

- Members over age 55 can elect to be excluded from the 2 Pot system.
- Current assets and future contributions will continue to be applied to the Vested pot and these members will not have savings pot or a retirement pot.
- Members have an option at the inception of the legislation to voluntarily ''opt into the 2 pot system''
- If a member selects this option they cannot change their mind at a later date

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SUMMARY

- Access to the assets in the savings pot should be viewed as for emergencies only.
- If the savings pot is cleaned out annually you are effectively reducing your retirement savings each month by 1/3rd.
- Members are encouraged to seek professional financial advice.
- There will be more comprehensive presentations once details are finalised
- A reminder that we still await final legislation and will need to have rule amendments approved.

QUESTIONS

Questions can be said now or emailed to info@gobenefits.co.za

Alternatively for benefit counselling contact:

info@benefitcounsellor.com