



# TWO-POT RETIREMENT SYSTEM

**WHAT'S POTTING...**

**August 2024**

**Reviewing Two-Pot**

## TOPICS COVERED



**TWO-POT  
SIMPLIFIED**

We explain the concept of the two-pot system in simple terms and outline the implementation dates.



**TAX**

This article outlines the various tax rates that will be implemented and explains their impact on personal income tax.



**HOW TO CLAIM**

We outline the anticipated process according to different fund Regulations and Investment protocols



**FUND, EMPLOYER  
AND POT  
TRANSFERS**

Discussing the various transfers permitted and the various transfer types.



**EXCLUSIONS,  
DEDUCTIONS &  
FEES**

Understanding the exclusions, deductions, and permitted transfers that will be implemented



**EXITING THE  
FUND AFTER  
1 SEPTEMBER  
2024**

Here, we outline the potential scenarios one might encounter at retirement concerning the different pots and the access to them.



## TWO-POT SIMPLIFIED

From 1 September 2024, your fund credit (savings) will be divided into three pots (components), each pot serves a different purpose, but together they provide a solid foundation for a secure retirement. Let's look at what is in each pot.



This pot contains all retirement savings accumulated up until 31 August 2024. The current regulations and Fund rules, in respect of benefits like a lump sum payment upon resignation and the retirement reforms that took effect on 1 March 2021, will continue to apply to the money in the vested pot. **No further contributions** will be made to the vested pot after 1 September 2024, *unless* you were a Member of the Fund on 1 March 2021 and:

- you were 55 years or older on 1 March 2021, and
- you have not chosen to opt into the two-pot system at any time within the 12 month period from 1 September 2024.

Contributions for this Member will be allocated in the Vested Pot only.

On 1 September 2024, 10% of your retirement saving as at 31 August 2024 will be transferred from your vested pot to the savings pot, with a maximum limit of R30,000. This amount, known as seed capital, will serve as the initial balance in your savings pot. It's a one-time allocation that can be withdrawn if necessary. You can withdraw from your savings pot once per tax year, with a minimum withdrawal amount of R2,000. Withdrawals will be taxed at your marginal tax rate, and processing fees will apply. While these funds are accessible, be mindful of the tax and cost implications—reserve this money for emergencies only. Any remaining funds in the savings pot will be available as a lump sum when you resign, retrenched, dismissed or retire. Additionally, one-third of the monthly member and employer contributions, after costs, will be allocated to the savings pot.

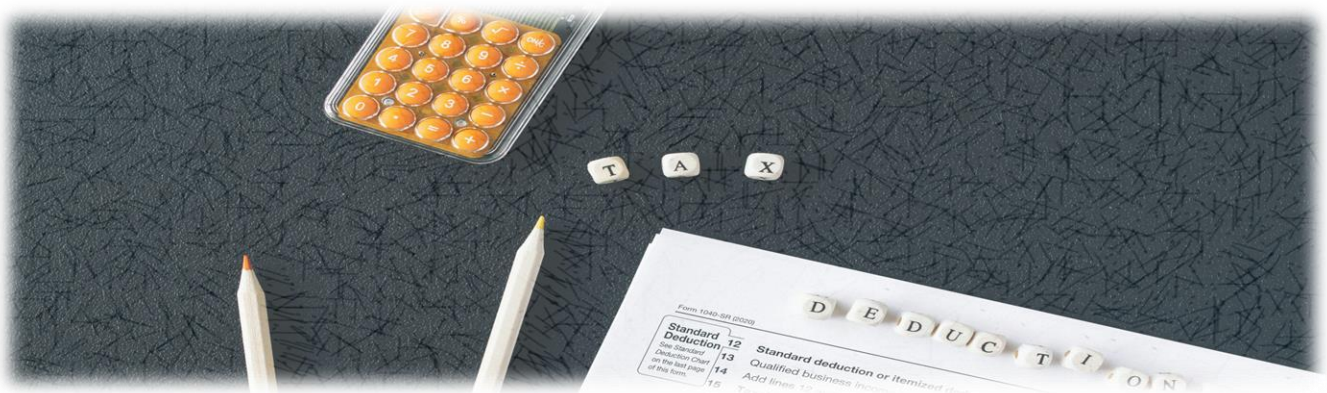
The bulk of your savings will be allocated to the retirement pot, which is designated for compulsory preservation. **You cannot access the money in the retirement pot until you retire.** These funds will be used to provide you with income during retirement. Two-thirds of the monthly member and employer contributions, after costs, will be directed to the retirement pot.



# TAX

## Taxation of the savings pot withdrawal principles.

- Savings Pot Withdrawals are seen as “income” by SARS and taxed as such.
- Therefore, Savings Pot withdrawals will be taxed by applying the marginal tax rate determined by the Member’s current annual income at the time of making the withdrawal.
- If a Member withdraws from his/her Savings Pot, SA Quantum will apply to SARS for a tax directive to obtain the tax amount that must be deducted from the Savings Pot withdrawal. To do this, SA Quantum and SARS will need the Member’s **name, date of birth, ID number, physical and postal address, tax number and annual salary (before tax and deductions)**.
- SARS has the right to accept or reject the automated request for a tax directive. This could be due to a mismatch of the Member’s tax data e.g. ID number and tax number don’t correspond with what SARS has on record.
- SARS will require a Member to pay any additional outstanding taxes (referred to as an IT88) such as outstanding administrative penalties and arrear assessed tax owing to SARS.
- SA Quantum will withhold the tax provided by SARS and pay out the net value to the Member. The Member will receive their requested withdrawal amount (gross amount) less the tax, the SA Quantum transaction fees, and any outstanding taxes (if applicable).
- SA Quantum will provide the Member with a payment breakdown once the final amount has been paid to the Member (to show the gross amount, tax deducted (marginal income tax + IT88 if applicable), fees deducted and net amount paid).
- SA Quantum will issue a tax certificate shortly after the Member has been paid.



The tax rate in the personal income tax table below may be shown as an amount, a percentage rate, or a combination of both. For example, an individual that earns R23,000 a month or R276,000 a year would have a marginal tax rate of 26%. The marginal tax rate is the amount after the +



## MARGINAL TAX TABLE

TAXABLE INCOME (R)	RATE OF TAX
1 - 237 000	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

## RETIREMENT TAX TABLE [2025 TAX YEAR (1 MARCH 2024 - 28 FEBRUARY 2025)]

TAXABLE INCOME (R)	RATE OF TAX
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



*Early withdrawals from your savings pot can have a negative impact on your total savings at retirement. It's like borrowing from your future self, and it's something to be cautious about.*

*In summary, your **Savings Pot** will be taxed as follows:*

- Pre-retirement withdrawal (savings withdrawal) is considered an income and taxed at marginal tax rate = marginal tax rates apply OR
- When you withdraw at retirement the retirement tax applies = retirement tax rates apply.



## HOW TO CLAIM?

### Varying timelines depending on fund types and investment mandates.

Given the different fund types, investment portfolios, and unit pricing timeframes that may apply to your specific fund, please consider the following points when deciding to claim from your savings pot after the 1<sup>st</sup> September 2024, especially regarding the seeding capital timeframes:

Different funds may have varying rules and processes for savings pot withdrawals specifically when it comes to the investment portfolios and their pricing timeframes. Make sure you are familiar with the specific terms of your fund, ***whether it is priced daily or monthly*** as this will impact the timeframes of your seeding capital allocation and savings withdrawal processes.

The performance and structure of your investment portfolio can affect the value of your savings pot.



***Understand how your portfolio's composition may impact your withdrawal timeframes.***

***The process and approximate timeframes for submitting a claim for your savings pot withdrawals after the 1<sup>st</sup> September 2024 is as follows:***

- ❑ Request a Two-Pot Claim Form from your HR / Payroll Department.
- ❑ Provide correct names, ID Number, required banking details etc, sign and date the Two-Pot Claim Form and hand back to your employer for submission to SA Quantum claims team for processing.
- ❑ Employer confirms static information, stamps and signs the claim form and submits the form to SA Quantum for processing.
- ❑ Once the form is received the savings withdrawal amount is switched out of the market portfolios and placed into the funds bank account ready for payment (2-5 working days dependant on the investment managers policies and procedures).
- ❑ While the dis-investment amount is pending the information on the claim form is verified and the pre-tax calculations are conducted. (2-3 working days).
- ❑ Once approved the tax directive is requested from SARS and usually is received within 24 to 48 hours thereafter.
- ❑ Upon receipt of a valid tax directive, verification of banking details, confirmation of any flagging or Section 37D deductions, and confirmation of the disinvestment being processed, the payment request is sent to the accounts team for disbursement. This step typically takes 1-2 working days
- ❑ The accounts team will confirm the payment, and the confirmation letter along with the IRP5 will be sent to the member at the email address provided in the claim documents. If no email address is provided, the letter will be sent to the employer.
- ❑ The entire process for claiming from your savings pot, from the submission of claim documents to payment and the issuance of a confirmation letter, should take between 7-10 working days.



## FUND, EMPLOYER AND POT TRANSFERS

### Transfer Process Under the Two-Pot System

When a member transfers from one fund to another, the entire retirement saving is moved. This process remains unchanged under the two-pot system. However, due to the different components (savings, retirement, and vested) within the two-pot system, the receiving fund (Fund B) must replicate these components exactly as they were in the transferring fund (Fund A). Further, a Member may choose to transfer his/her vested and savings components of Fund A into a retirement component of Fund B. All existing components in Fund A must be transferred to Fund B, except for any portion taken as a cash lump sum, if applicable.

Split transfers, where the retirement saving is transferred to two or more funds, will be allowed as long as the same proportion of each component is transferred to the corresponding component of the receiving fund.

*Always remember to consult a certified financial planner during events that affect your financial well-being. Knowledge is power, and they are there to help*



### Understanding Vested Rights During Fund Transfers

Vested rights will remain intact even when transferring between approved retirement funds. This means that if a member moves from one approved retirement fund (Fund A) to another (Fund B), the vested component from Fund A will transfer to Fund B and will continue to be governed by the same accessibility rules.

However, it's crucial to recognize that vested rights in a retirement annuity fund or preservation fund differ from those in an approved retirement fund. For example, if a transfer occurs from an approved retirement fund to a retirement annuity fund, the accessibility rules associated with the retirement annuity fund (as they were before 1 September 2024) will apply to the vested component transferred.

***Important Note:*** A member of a provident fund who was 55 years or older on 1 March 2021 and has not opted into the two-pot system may have their vested rights affected by switching funds. Seeking advice and clear communication are essential to fully understand these implications.



## Understanding Transfers Between Components: Intra-Fund Transfer Implications

*Irreversible Transfers:* Members can transfer from their vested and/or savings component to the retirement component. Once transferred, this is irreversible, and no further transfers out of the retirement component are allowed.

***Important Note:*** *No Lump Sum Access: Members will not have access to a lump sum once the funds are transferred to the retirement component and cannot transfer back from the retirement component to the savings component. This restriction limits access to funds in an emergency and reduces the cash portion available at retirement.*

*These transfers could be disadvantageous at retirement, particularly for members who still have the R550,000 tax-free allowance or a portion of it available. The retirement component does not permit a cash lump sum at retirement unless the retirement benefit is below the de minimis threshold of R165,000. These type of transfers are known as an intra-fund transfer or re-allocation.*



## Handling Transfers Between Funds Under Section 14

When both the transferor and transferee funds have amounts related to the transferring member (i.e., the transferor fund has accumulated retirement savings up to the effective date of the Section 14 transfer and the transferee fund has contributions made from that date), the following procedures apply:

- ❑ ***Seed Capital Calculation:*** Both funds must calculate the seed capital as of 31 August 2024 based on the value held in their respective funds on that date.
- ❑ ***Savings Component Establishment:*** A savings component must be established in both funds as of 1 September 2024.
- ❑ ***Savings Withdrawal Benefit:*** A savings withdrawal benefit will be payable from both funds, subject to the rules governing access to such benefits.



## **Treatment of Section 14 Application and Documentation:**

*Reconciliation:* The Form G reconciliation will be completed after the transfer is finalized to reconcile any amounts paid out between the effective date of the Section 14 and the asset transfer, reflecting any death, resignation, retirement, or seed capital amounts paid.

*Pre-1 September 2024 Application:* A Section 14 application submitted to the FSCA before 1 September 2024 will not account for the split of transfer values into the various components, as these components did not exist at the time of submission. If the Section 14 is not approved by 1 September 2024, both funds will need to allocate seed capital and provide for a savings withdrawal benefit.

*Post-Approval:* Once the Section 14 is approved, the transferor fund will provide the transferee fund with a detailed breakdown of the vested component and any remaining balance in the savings component upon the transfer/payment of assets.

## **Withdrawal Conditions for the Savings Component**

### **Condition 1:**

*Annual Withdrawal Limit:* Members are allowed only one withdrawal per tax year from the savings component if the balance is at least R2,000 and the withdrawal amount is a minimum of R2,000. This is before taxes and fees are deducted.

### **Condition 2 (Exception to Condition 1):**

*Withdrawal on Resignation:* If a member resigns, they are permitted a second withdrawal within the same tax year if the remaining balance in the savings component is less than R2,000.

### **Additional Details**

*No Maximum Limit:* There is no maximum limit on the value that can be withdrawn once per tax year, provided these conditions are met.

*Taxation:* Pre-retirement withdrawals are taxed at the member's marginal tax rate, similar to their monthly salary. Lump sum cash withdrawals from the savings component at retirement are taxed according to the retirement tax table. The first R550,000 is taxed at 0%, subject to any previous tax allowances.

*Withdrawal Limits:* The minimum withdrawal amount is R2,000, and the maximum is the total balance in the savings component.



## EXCLUSIONS & DEDUCTIONS

### When Savings Withdrawal Benefits Can Be Suspended and the treatment of Section 37D deductions

The amendments to the Pension Funds Act, 1956 allow for the suspension of a savings withdrawal benefit under certain conditions, including:

- ❑ **Housing Loan** – If a member has an outstanding housing loan and a savings withdrawal would leave insufficient funds to repay the loan, the withdrawal may be suspended.
- ❑ **Judgment for Misconduct** – If the employer has obtained a judgment against the member for fraud, theft, dishonesty, or misconduct, and a savings withdrawal would leave inadequate funds to satisfy the judgment, the withdrawal may be suspended.
- ❑ **Pending Judgment** – If the employer is in the process of obtaining a judgment against the member for the same reasons and a savings withdrawal would jeopardize the ability to pay the employer if a judgment is granted, the withdrawal may be suspended.
- ❑ **Divorce Proceedings** – If the fund is notified that the member is undergoing divorce proceedings, the non-member spouse must consent to the savings withdrawal benefit claim.
- ❑ **Maintenance Order** – If the fund receives a maintenance order and a savings withdrawal would leave insufficient funds to cover the maintenance, the withdrawal may be suspended.
- ❑ **Pending Maintenance Order** – If the fund is notified of a pending maintenance order and there is an interdict preventing the payment of a savings withdrawal claim, the withdrawal may be suspended if it would leave insufficient funds to meet the maintenance order if granted.

### Treatment of Section 37D Deductions:

Section 37D deductions will reduce each of the three components (savings, retirement, and vested) proportionately.

### Two-Pot Claim Fee Structures:

**Current Administration Fee:** No changes at present; this will be evaluated upon the next fund anniversary with SA Quantum.

**Two-Pot Savings Withdrawal Fee:** A fee of 2%\* of the withdrawal amount will be charged per Savings Pot withdrawal.

\* Minimum Fee: R225

\* Maximum Fee: R550

**Retirement Pot:** After a member exits, any remaining Retirement Pot will be treated as a Paid-up/Unclaimed record and will be charged according to the standard fee structure.



## EXITING THE FUND AFTER 1 SEPTEMBER 2024 ?

### Annuitisation Requirements for Pension and Provident Funds at Retirement

While there are differences between pension and provident funds, annuitisation requirements apply at retirement for both since 1 March 2021. Members are generally required to annuitize at least two-thirds of their retirement savings, with some exceptions:

*Provident Fund Members:* Members with vested rights in a provident fund are subject to the rules in place before the 1 March 2021 retirement reforms, which may allow for different treatment of their savings. Calculation of the vested right/portion depends on the age of the Member in a provident as at 1 March 2021.

If a Member was 55 years or older on 1 March 2021, his/her vested right/portion will be the value of his retirement savings including contributions and investment returns accumulated before and after 1 March 2021. If a Member was younger than 55 as at 1 March 2021, his/her vested right/portion will be the value of his/her retirement savings accumulated only up to 1 March 2021 and all contributions and investment returns accumulated after 1 March 2021 until 31 August 2024 will be the non-vested right/portion.

*De Minimis* Amounts: If the total value of the retirement benefit is below a certain threshold (the *de minimis* amount), the member may be allowed to take the entire benefit as a lump sum rather than being required to annuitize. For Provident Fund Members, the *de minimis* threshold is calculated only on the non-vested right and the balance in a savings and retirement component.

These annuitisation requirements ensure that retirees have a steady income stream during retirement, but the specifics can vary based on the type of fund and individual circumstances.

*If you have any questions or need further clarification about your retirement savings, don't hesitate to reach out. We're here to assist you every step of the way. Your understanding and peace of mind are our top priorities*



### Understanding the *De Minimis* Amount and Annuitisation at Retirement

Legislation mandates that retiring members use their retirement and non-vested right in a vested components to purchase a pension, except in cases where two-thirds of the combined total does not exceed R165,000. This threshold, known as the *de minimis* amount, allows members to take their benefits in cash if the calculated value is below R165,000. Here's a breakdown of how this works, with examples:

#### Key Points:

*De Minimis Calculation:* Two-thirds of the non-vested portion within the vested component, plus 100% of the retirement component, are considered in the *de minimis* calculation.

*Vested Component:* Members can take the full vested portion in cash, while the non-vested portion may be subject to annuitisation.



**Examples:**

**EG. 1:**

Vested Component: R500,000

T-Day Vested Portion: R400,000

Non-Vested Portion: R100,000 (R500,000 - R400,000)

Two-Thirds of Non-Vested Portion: R67,000

Retirement Component: R50,000

De Minimis Calculation:

Two-thirds of Non-Vested Portion (R67,000) + 100% of Retirement Component (R50,000) = R117,000

Result: Since R117,000 is less than R165,000, the full benefit accumulation of R550,000 can be taken in cash.

**EG. 2:**

Vested Component: R200,000

T-Day Vested Portion: Zero

Retirement Component: R50,000

De Minimis Calculation: Two-thirds of Vested Component (R133,000) + 100% of Retirement Component (R50,000) = R183,000

Result: Since R183,000 is more than R165,000, the de minimis does not apply, and the benefit must be annuitised.

**EG. 3:**

Vested Component: R100,000

T-Day Vested Portion: Zero

Retirement Component: R50,000

De Minimis Calculation: Two-thirds of Vested Component (R67,000) + 100% of Retirement Component (R50,000) = R117,000

Result: Since R117,000 is less than R165,000, the full benefit accumulation of R150,000 can be taken in cash.

This calculation is crucial for determining whether a member can take their retirement benefits in cash or must annuitize them. Understanding these rules helps members make informed decisions about their retirement planning.



## Understanding the Role of Your Savings Component

The savings component of your retirement fund offers some flexibility by allowing limited access to funds before retirement. However, it's important to keep in mind that the primary purpose of this component is to support your financial needs in retirement, whether through a lump sum or by boosting your retirement income.

### Considerations for Members:

*Retirement Planning:* While you can access your savings component in certain situations, it's advisable to focus on preserving these funds for your retirement. This can help ensure you have a stronger financial foundation when you stop working.

*Emergency Funds:* It's a good idea to build separate emergency savings outside of your retirement fund. This way, you can handle unexpected expenses without dipping into your retirement savings.

*By thoughtfully managing your savings component, you can better prepare for a secure and comfortable retirement.*



## Using the Savings Component Wisely: Planning for Retirement

It's important to remember that the retirement component of your fund cannot be taken as a cash lump sum—it must be used to purchase an annuity at retirement. This annuity will provide you with a regular income throughout your retirement years.

### *Why This Matters:*

*Cash Needs at Retirement:* Many people find that they need cash when they retire to settle outstanding debts or cover unexpected expenses like medical bills. Since the retirement component must be annuitized, it's crucial to have other resources available for these needs.



*Saving the Savings Component:* To ensure you're financially prepared for retirement, it's advisable to use the savings component sparingly, ideally only in emergencies. By preserving this component, you can access a lump sum at retirement to cover essential costs, reducing financial stress in your later years.

*Carefully managing your savings component now can provide valuable flexibility and peace of mind when you retire.*

## **Accessing Your Retirement Savings Under the Two-Pot System: Key Considerations**

When leaving employment, the two-pot system provides options for accessing your retirement savings. However, it's essential to understand the rules and implications before making decisions.

### ***Lump Sum Access:***

#### **■ Vested Component:**

You can access your vested component, which includes retirement savings accumulated before 1 September 2024 plus any investment return, as a lump sum when leaving an employer due to either resignation, dismissal or retrenchment. There's no need to rush to resign before the effective date if you might need this money later.

#### **■ Savings Component:**

You can also access your savings component as a lump sum. However, if you've already made a withdrawal from this component in the same tax year, a second withdrawal on resignation is only allowed if the remaining balance is less than R2 000. If the balance exceeds R2 000, you'll have to wait until the next tax year to make another withdrawal.

All lump sum withdrawals are subject to tax.

### ***Important Restrictions:***

#### **■ Retirement Component:**

You cannot take a cash lump sum from the retirement component when you resign, are retrenched, or are dismissed. This portion must be preserved in the fund or transferred to another retirement fund.

#### **■ Part Cash/Part Preservation:**

Currently, if you choose to take part of your fund credit in cash when leaving employment, you must transfer the remaining balance to another fund. You cannot preserve the balance in the same fund. Under the two-pot system, similar rules will apply. If you withdraw part of your benefit as cash, the remainder must be transferred to another fund.



**Key Action:**

**Check Fund Rules:**

Before making any decisions, it's crucial to review your fund's specific rules regarding options available when leaving employment. Consulting with your fund's trustees or a financial advisor can provide valuable guidance.



*Making informed choices can help you balance immediate financial needs with long-term retirement security.*

*These rules are designed to balance immediate access to funds with the long-term goal of preserving retirement savings.*

# Watch for more!

[info@saquantum.co.za](mailto:info@saquantum.co.za)



[www.squantum.co.za](http://www.squantum.co.za)

