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Two-pot
How will it impact provident/provident preservation fund members currently 58 and older?

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On 1 September 2024, the two-pot retirement regime will be introduced, which makes provision for the creation of various notional components within a member's retirement fund benefit/contract. These components will be referred to as:

- the **Vested component** (housing the member's existing benefits as at 31 August 2024, plus growth, which will be grandfathered),
- the **Savings component**, and
- the **Retirement component**.

Different rules and rights will apply to each of these components.

It is important to realise that although the two-pot regime will apply to pension funds, provident funds, pension preservation funds, provident preservation funds and retirement annuity funds, not all retirement fund members will automatically be included in the two-pot regime.

In terms of legislation,

- members of **provident funds** and **provident preservation funds**,
- who were **older than 55 on 1 March 2021**, and
- who are still members of the **same provident fund or provident preservation fund**,

will by default be **excluded** from the two-pot regime.

Provident Fund

For provident fund members in this category, this means they will be able to continue contributing to their existing provident fund 'vested benefits', and the old rules governing their retirement fund benefits will continue to apply. Their contributions after 1 September 2024 will not be allocated to a Savings component and Retirement component.

Provident Preservation Fund

For provident preservation fund members in this category, who aren't permitted to make new contributions to the preservation fund, their existing benefits plus growth will continue to form part of their provident fund 'vested benefits'.

Vested benefits

Members with provident fund 'vested benefits' will not be forced to purchase an annuity with any portion of the vested benefits when they retire from the retirement fund (i.e. the 1/3 maximum lump sum rule at retirement does not apply to them).

When retiring, these members have the option to:

- take their full vested benefit as a lump sum (taxed according to the retirement tax table),
- take any portion of the benefit as a lump sum (taxed according to the retirement tax table) and purchase a compulsory annuity with the balance, or
- use the full benefit to purchase a compulsory annuity.

These excluded members will however have the option of **electing to participate/opting into the two-pot regime** should they wish, by submitting an instruction to the applicable provident fund or provident preservation fund.

Please note that if a member **transferred** from one fund to another between 1 March 2021 and 1 September 2024, for example from a provident fund to a provident preservation fund, or from one provident preservation fund to another provident preservation fund, they will not be excluded, and the two-pot regime will apply to them automatically regardless of their age.

Electing to participate in the two-pot regime

These excluded members have the right to opt in to become subject to the two-pot regime, but in order to do so they must submit their instruction in writing to the retirement fund within 12 months of the effective date – therefore **before 1 September 2025**. If a member has more than one contract in the specific fund which is excluded from the two-pot regime, an opt-in instruction must be submitted separately for each contract they wish to be included.

> Please note that an instruction to opt into the two-pot regime is final and cannot be reversed.

Once an instruction to opt in has been received by the fund, 10% of the value of the member's benefit as at 31 August 2024, capped at R30 000, will be transferred from the member's Vested component to the member's newly created Savings component. This is referred to as 'seed capital'.

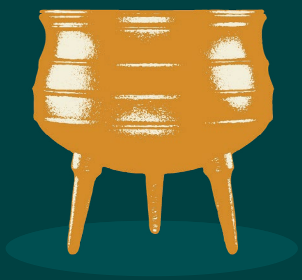
The benefits in the Saving component will be available to the member for withdrawal at any time, limited to one withdrawal per contract per tax year and the minimum amount withdrawn being R2 000. Withdrawals from the Savings component will be taxed at the member's marginal tax rate. The administrator of the fund will apply to SARS for a tax directive, deduct the applicable taxes due, and pay the balance to the member.

Member of Provident Preservation Fund
55 years+ on 1 March 2021

Position **before** opting in...

Monthly contributions are not applicable

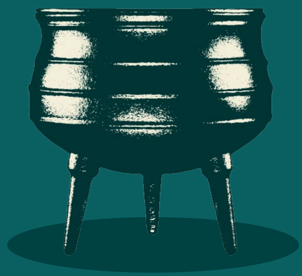
Vested component



Vested pot 1
(Provident Fund vested benefits)
R4 000 000

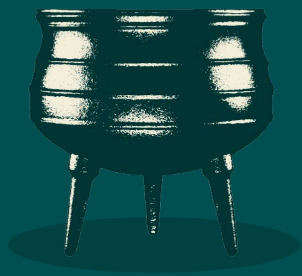
Vested pot 2
(Balance)
R0

Savings component



R0

Retirement component

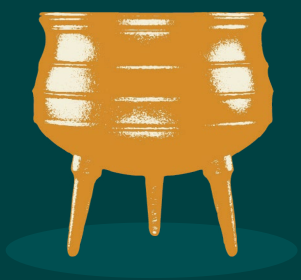


R0

vs. position **after** opting in

Monthly contributions are not applicable

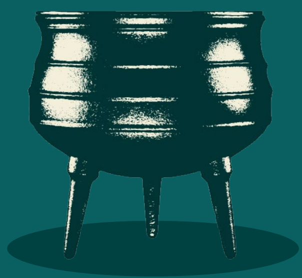
Vested component



Vested pot 1
(Provident Fund vested benefits)
R3 970 000

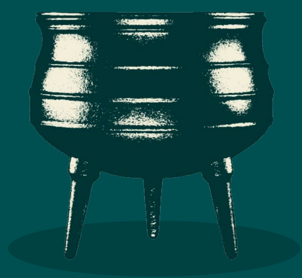
Vested pot 2
(Balance)
R0

Savings component



(Seed capital)
R30 000

Retirement component



R0

The **balance of the member's benefit** will remain as vested benefits in the Vested component, and the old rules/member's existing rights will continue to apply to these benefits. For example, if a member of a provident preservation fund has a once-off withdrawal option remaining, the member will still be able to take this type of withdrawal from the Vested component at any time, which will be taxed in accordance with the withdrawal tax table.

What is the benefit of opting in for members of provident preservation funds?

If these members need access to some funds, and their once-off withdrawal option has already been exercised, but they do not wish to retire from the fund at that time, opting in may give them some limited access to funds (i.e., the seed capital with a maximum value of R30 000). As mentioned above, a withdrawal from the Savings component (other than at retirement) will be taxed in accordance with the member's marginal tax rate, despite the member's age being over 55.

Alternatively, the member has the option to remain opted out and retire from the fund at any time in the future to receive a lump sum (subject to the retirement tax table), or they may elect to take a once-off withdrawal if available (taxed in terms of the withdrawal tax table).

The provident preservation fund member's options at retirement, after opting in

Any benefits remaining in the Savings component may be taken as a lump sum when retiring from the fund, subject to tax in terms of the retirement tax table (not the member's marginal rate). Alternatively, these benefits, together with the member's other benefits, may be used to purchase an annuity.

There may be no value in the Retirement component, as members of provident preservation funds are not permitted to make further contributions to the fund; but if there is due to a subsequent transfer, for example, this full value must be used to purchase an annuity.

Benefits in the member's Vested component will probably consist of provident fund 'vested benefits' only, less the seed capital transferred to the Savings component, plus growth. Members will not be forced to annuitise any portion of this benefit and can take up to the full vested benefit as a lump sum (subject to tax in terms of the retirement tax table). Any portion not received as a lump sum may be used to purchase an annuity.

Conclusion

The two-pot regime will introduce a lot of complexity to retirement funds, which members will have to consider at various times in the future. It is therefore even more important that members consult a financial advisor to help them navigate the old and the new rules, and to highlight the full implications of accessing retirement fund benefits.

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