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Two-Pot System

What is the two-pot system?

The two-pot system is a proposal from National Treasury to help South Africans withdraw money from their retirement savings when they have an emergency but also preserve some of their retirement savings so that they have savings for a pension when they retire.

Why has National Treasury proposed the two-pot system?

Under the current regulations retirement fund members can withdraw their retirement savings when they change jobs. Many South Africans have felt the economic squeeze and have not been able to save for an emergency fund. When faced with an emergency or unexpected crisis like the Covid pandemic, some have resigned from their jobs to withdraw their retirement savings from their company retirement fund. This short-term solution may help in an emergency but it also leaves those people without retirement savings and a pension when they retire. To ensure that more South Africans keep their retirement savings but also have access to savings when they have an emergency, National Treasury has proposed the two-pot system.

How will the two pot system work?

From the date that the system will come into effect your monthly contributions to your retirement fund will be split into two pots – a savings pot and a retirement pot. One third (33%) of your contributions will be put into a savings pot and you will be able to withdraw funds from that savings pot once a year. The other two thirds will be put into a retirement pot and you will only be able to access these funds when you retire. All your retirement savings up until the two pot system comes into effect will be kept in a vested pot and the old rules apply to this money.

Who will be affected?

All types of retirement funds will be affected by the new system – pension funds, provident funds, retirement annuities and preservation funds. Any Provident Fund members who were over 55 years old on 1 March 2021 (born before 1966) will have the choice of staying with the old system or changing to the new one.

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How much can I withdraw and when?

Once a year you will be able to access your funds in the Savings Pot. You can withdraw a minimum of R2,000 and the maximum is only set by the amount in your savings pot. The amount you withdraw will be taxed at your marginal tax rate. You do not have to give a reason for your withdrawal but just because you can withdraw once a year does not mean that you should. Retirement Funds grow through long term investments and should be kept for retirement or in case of death or permanent disability.

When will this new system start?

The proposed new legislation has not been passed yet. At this stage it should come into effect on 1 March 2024, but this may change.

Emergancy Savings Pot	Retirement pot	Vested Pot
• One third of your savings will be saved here and grow with investment returns. • You can access this money once a year before you retire. • You will be taxed on any money that you withdraw according to your marginal tax rate. • You can withdraw a minimum of R2000 and a maximum of the amount in your pot. • A seed amount, currently 10% of your existing savings up to R30 000, will be transferred from your vested pot to kickstart your savings pot.	• Two thirds (66%) of your monthly contributions will be saved in this pot. • This pot can be accessed at death or retirement.	• All of your existing retirement savings up until the start of the new two pot system will stay in your vested pot and grow with investment return • You will be able to access this pot if you leave your employer before retirement.

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