LIBERTY
Standard Bank Group

TWO-POT RETIREMENT SYSTEM

Frequently Asked Questions

A new retirement system, known as the 'Two-Pot' Retirement System, has been proposed for implementation as part of the South African government's retirement reform initiatives. Starting from 1 September 2024, a member's retirement savings will be categorised into three different 'pots', formally known as 'components'.

The first component, known as the **'Vested Component'**, will comprise members' accumulated retirement savings as at 31 August 2024, less an amount allocated to 'Seed Capital', plus investment returns earned on these savings from 1 September 2024 onwards. The benefits in this component will remain split into 'Vested' and 'Non-Vested' benefits according to the T-Day rules for provident fund members that were introduced on 1 March 2021. These benefits are referred to as Vested Benefits and Non-Vested Benefits. After the implementation date, members will have the same rights of access to the benefits in their Vested Component, as they do currently. They will consequently have vested rights of access, which will include all existing rights relating to their accumulated Vested and Non-Vested benefits.

The second component, known as the **'Savings Component'**, will enable access to accumulated savings prior to retirement. This component will comprise a once-off seed capital amount taken from the member's accumulated savings as at 31 August 2024 plus **one-third of all retirement contributions** (less charges and risk premiums) made from 1 September 2024 onwards. It will also include all investment returns earned on these contributions. Cash withdrawals from the Savings Component, known as 'Savings Withdrawal Benefits' will be allowed once every tax year, subject to a minimum amount of R2 000 (before deducting charges or transaction costs).

The third component, known as the **'Retirement Component'**, will comprise **two-thirds of all retirement contributions** (less charges and premiums) made from 1 September 2024 onwards, plus all investment returns received on these contributions. This component must be preserved until retirement and pre-retirement withdrawals will only be allowed from this component under exceptional circumstances - specifically if the member has formally emigrated, has ceased to be a South African tax resident for a period of at least 3 years or if the member is a non-resident whose South African visa has expired.

This means, from 1 September 2024, members may have up to three pots or components going forward, i.e., a Vested Component, a Savings Component and a Retirement Component. Each of these components will have various rules for withdrawal, taxation and annuitisation.

Below are some frequently asked questions to clarify further details on the new Two-Pot Retirement System.

1. General questions on the new Two-Pot Retirement System

Who will be affected by the Two-Pot Retirement System?
The Two-Pot Retirement System will affect members of the following types of retirement funds.

1. Public sector funds and private sector funds;
2. Defined benefit funds ("DB Funds") and defined contribution funds ("DC Funds"); and
3. Pension funds, provident funds, pension preservation funds, provident preservation funds and retirement annuity funds.

Which funds are excluded from the Two-Pot Retirement System?

1. Legacy retirement annuities will be excluded. These are retirement annuity contracts held by a member, entered into before 1 September 2024 with a pre-universal life or universal life construct, subject to such conditions as the Financial Sector Conduct Authority may determine.
2. Beneficiary funds.
3. Unclaimed Benefits Funds.

Which members will be excluded from the Two-Pot Retirement System?

1. Pensioners.
2. Provident fund members who were 55 and older on 1 March 2021, who are still in the original provident fund and who have not elected to be part of the Two-Pot Retirement System.
3. Provident preservation fund members who were 55 and older on 1 March 2021 and who have not elected to be part of the Two-Pot Retirement System.

How will current accumulated retirement savings be impacted?

A member's current accumulated retirement savings (i.e. accumulated prior to 1 September 2024) less once-off seed capital (see below), will form part of the new Vested Component. A member's current rights of access to these benefits and the manner in which these benefits are taxed will carry through into the new system. Members will consequently have vested rights of access to the benefits in the Vested Component, which will include recognition of all the rights relating to their accumulated Vested and Non-Vested benefits. Contributions made from 1 September 2024 onwards will be allocated to the Savings Component and Retirement Component.

What is 'Seed Capital', and what does this mean for the starting value in the Savings Component?

Seed Capital is a portion of a member's accumulated retirement savings as at 31 August 2024. The Seed Capital will be transferred once-off into the member's Savings Component on or after 1 September 2024. This will serve as a starting balance to the Savings Component. Seed Capital will be calculated as 10% of the accumulated retirement savings as at 31 August 2024, capped at R30 000. A member's Vested benefits and Non-Vested benefits as at 31 August 2024 will be reduced proportionately by the value of the Seed Capital deducted and allocated to the Savings Component.

How will contributions be split after 1 September 2021?

From 1 September 2024, one-third of a member's retirement contributions (less charges and premiums) will be allocated to their Savings Component and two-thirds will be allocated to their Retirement Component. Any investment returns earned on the retirement contributions after 1 September 2024 onwards will accumulate in the component that the contributions are allocated to.

Will the member have the option to direct Additional Voluntary Contributions (AVCs) to the Savings Component?

Members will not be able to direct 100% of AVCs into the Savings Component after 1 September 2024. One-third of the AVCs will go into the Savings Component, and the remaining balance (two-thirds) of the AVCs made will go into the Retirement Component.

Which transfers between components will be allowed?

Within the same fund (intra-fund re-allocations):

- From a Vested Component to a Retirement Component.
- From a Savings Component to a Retirement Component.

Between different funds (inter-fund transfers):

Transfers of the same type of components (like-for-like) to another fund:

- From the Vested Component in Fund A to the Vested Component in Fund B.
- From the Savings Component in Fund A to the Savings Component in Fund B.
- From the Retirement Component in Fund A to the Retirement Component in Fund B.

Transfers to the Retirement Component of another fund

- From the Vested Component in Fund A to the Retirement Component in Fund B.
- From the Savings Component in Fund A to the Retirement Component in Fund B.

Inter-fund transfers (between different funds) will only be allowed when a member terminates their membership in the fund, resigns or retires from their respective retirement fund. If a member chooses to make an inter-fund transfer, all three components will need to be transferred at the same time.

The above transfers may be made tax-free. Any decision taken by a member to transfer or re-allocate benefits from their Savings/Vested Component to their Retirement Component should only be taken with appropriate financial advice, as the access rights of the Retirement Component will then prevail.

How will deductions in terms of the Pension Funds Act be applied to the three components?
Section 37D deductions as contained in the Pension Funds Act will be made proportionally from all three components - Vested, Savings and Retirement Components. This will apply to deductions such as maintenance orders and divorce awards.

2. Impact of T-Day on the new Two-Pot Retirement System

What are the current rules affecting a member's retirement savings following the T-Day retirement reform?
Currently, as a result of the T-Day changes effective from 1 March 2021, a member's retirement savings may be split between Vested and Non-Vested benefits.

- The Vested benefits comprise a member's accumulated retirement savings in a provident preservation fund and contributions to a provident fund prior to 1 March 2021 (known as T-Day), plus investment returns earned on these accumulated savings from T-Day onwards. For provident fund members who were 55 or older on T-Day and remain in the same provident fund, all retirement savings contributions made after T-Day (plus investment returns earned after that date) will also comprise Vested benefits. Up to 100% of Vested benefits may be taken as a cash lump sum benefit at retirement.
- The Non-Vested benefits comprise a member's retirement savings in a pension fund, pension preservation fund or retirement annuity fund. They also comprise a member's contributions to a provident fund from T-Day, plus investment returns earned on these savings accumulated from T-Day onwards if that member was younger than 55 on T-Day, or was older than 55 and did not remain in the same provident fund after T-Day. At least two-thirds of Non-Vested benefits must be used to purchase an annuity at retirement (subject to a statutory commutation minimum).

What will happen to the 'Vested' and 'Non-Vested' benefits after the implementation of the Two-Pot Retirement System on 1 September 2024?
The Two-Pot Retirement System will not affect a member's rights to the retirement savings accumulated up to 31 August 2024. After the implementation date, all the member's current rights of access will co-exist with the new Two-Pot system, whereby vested rights of members' benefits will be retained. A member's Vested benefits and Non-Vested benefits (less Seed Capital transferred to the Savings Component) will form part of the member's Vested Component.

What will the new Vested Component contain, and how will it be treated going forward?
The Vested Component will comprise members' accumulated retirement savings as at 31 August 2024, less an amount allocated to Seed Capital. It will also include the investment returns earned on these savings from 1 September 2024 onwards. This component will remain split into Vested and Non-Vested benefits according to the T-Day rules. Investment returns earned on each of the member's Vested and Non-Vested benefit portions, from 1 September 2024, will continue to be allocated to those respective benefit portions. Any cash lump sum withdrawals (e.g., on resignation/ dismissal/ retrenchment/emigration) from the Vested Component will be taxed in accordance with the applicable lump sum withdrawal tax table.

Once the Two-Pot Retirement System is active, there will be no new contributions into the Vested Component. Only members of provident funds who were aged 55 years or older on T-Day, who remain in that same provident fund and who have not elected to be subject to the Two-Pot Retirement System may continue to make 100% of their contributions to the Vested Component on or after 1 September 2024. If these members elect to be subject to the Two-Pot Retirement System, within a period of 12 months from 1 September 2024. Seed Captial will be determined on the value of their benefits on the last day of the month in which they make their election. In addition their contributions, from the date of their election will be allocated one-third to their Savings Component and two-thirds to their Retirement Component.

3. Pre-retirement withdrawals under the new Two-Pot Retirement System

What pre-retirement withdrawal benefits will be accessible after the implementation of the Two-Pot Retirement System on 1 September 2024? What will the respective tax implications of making such withdrawals be?

Vested Component:
Members will have all the same rights of access to the benefits in this component that they do currently.

In the case of pension funds and provident funds, members can still take their full cash lump sum on resignation from employment. In the case of pension and provident preservation funds and Retirement Annuity Funds, members can still take a cash lump sum withdrawal benefit on emigration, cessation of SA tax residence for a period of at least three years or if the member is a non-resident, on the expiry of their SA visa. In the case of Retirement Annuity Funds, members can still take their cash lump sum withdrawal benefit if the value across all their three components is less than R15 000. Any cash lump sum withdrawal benefits taken by the member will be subject to tax in accordance with the lump sum withdrawal tax table (first R27 500 tax free).

Savings Component:
Members will have access to benefits in this component in cash at any time prior to retirement, but such pre-retirement withdrawals (known as 'Savings Withdrawal Benefits') will be allowed once per tax year only. The minimum amount that can be taken as a cash Savings Withdrawal Benefit is R2 000 before charges and transaction costs are deducted. The cash Savings Withdrawal Benefit will be taxed at the member's marginal tax rate. In the event where a member terminates their membership and this member has already taken their one Savings Withdrawal Benefit within the relevant tax year, an additional withdrawal will be allowed in that same tax year, provided that the balance in the Savings Component is less than R2 000.

Retirement Component:
The benefits in this component must be preserved until retirement and no withdrawals will be allowed from this component before retirement, except under exceptional circumstances. This component will only be accessible at retirement, on the death of the member or prior to retirement if:

- The member has formally emigrated or ceased their South African tax residency for a period of at least three years or,
- The member is a non-resident and their SA work or visitor's visa has expired.

Could there be additional transactional costs with regards to the cash Savings Withdrawal Benefits taken from the Savings Component and how will these costs be paid?
Yes. The cost of withdrawals will be determined in the rules of the fund.

4. Retirement benefits under the new Two-Pot Retirement System

What will happen when a member retires after the implementation of the Two-Pot Retirement System?

Vested Component
At retirement a member will be able to take 100% of the Vested benefits and up to one third of the Non-Vested benefits as a cash lump sum retirement benefit, subject to tax.

The member will however be required to purchase an annuity with at least two thirds of the Non-Vested benefits. A new commutation threshold will be introduced for members who wish to take their Non-Vested benefits in their Vested Component as a cash lump sum retirement benefit. They will only be able to commute their Non-Vested benefits in full if the member's interest in the Retirement Component plus two-thirds of the members Non-Vested benefits in the Vested Component does not exceed R165 000.

Savings Component

Any benefits left in the Savings Component at retirement can be taken as a cash lump sum retirement benefit. These benefits may also be transferred to the Retirement Component at retirement and taken in the form of a compulsory annuity.

Retirement Component

100% of the benefits in the Retirement Component must be taken in the form of a compulsory annuity at retirement. The member will only be able to commute the benefits in their Retirement Component into a cash lump sum retirement benefit if the member's interest in the Retirement Component plus two-thirds of the member's Non-Vested benefits in the Vested Component does not exceed R165 000.

Taxation of benefits taken at retirement

- Cash lump sum retirement benefits are subject to tax in accordance with the lump sum retirement tax table (where the first R550 000 is tax-free, applicable across all retirement benefits at all providers).
- Income received from the compulsory annuities will be subject to tax in accordance with the member's marginal tax rate.

5. What happens on the member's death after the implementation date?

On the death of a member the benefit payable is in respect of all three components and the member's beneficiaries, as determined in terms of section 37C of the Pension Funds Act, may choose to receive the benefits as:

- A cash lump sum death benefit or;
- a compulsory annuity or;
- a combination of both a cash lump sum and a compulsory annuity.

6. What are the requirements regarding tax directives?

It has been confirmed that:

- Tax directives will be required for Savings Withdrawal Benefits. They must be applied for under an IRP3(a) form. SARS will require a member's tax reference number and annual income for these tax directives.
- Tax directives will still be required for cash lump sum withdrawal benefits and cash lump sum retirement benefits. Tax directives will also be required for transfers to another fund. These tax directives must be applied for under the revised lump sum forms i.e. Forms A&D, Form B, Form C and Recognitions of Transfer "ROTs" where applicable.
- Tax directives will not be required for
  - Transfers of Seed Capital to the Savings Component
  - Re-allocations of benefits in the same fund