

The two-pot system

Some important new changes for retirement funds are coming and could apply from 1 September 2024. People usually call these changes 'the two-pot system'.



What do the changes mean for my retirement savings?

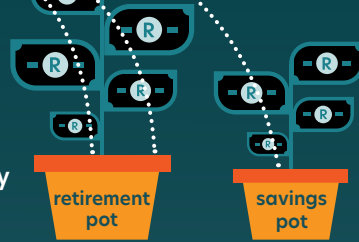
From 1 September 2024 any amounts that you save in a retirement fund will be split into a savings pot and a retirement pot. The bill talks about a 'component' rather than a 'pot', but we will still use a 'pot' here to make it simple.

1 From 1 September 2024 any new retirement savings will be split into two new pots for your retirement

How your new retirement savings will be split:



two-thirds (about 67%) automatically go into your retirement pot

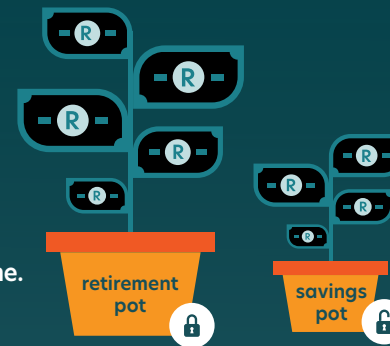


one-third (about 33%) automatically goes into your savings pot



2 How your two new pots work

You must use your retirement pot to set up a retirement income. No withdrawals allowed.



You can withdraw from your savings pot once a tax year if you need to.

Exception to the two-pot system

The new two-pot system changes **will not automatically apply to provident fund members who were 55 years or older on 1 March 2021**. These members who do not choose to participate in the two-pot system will not have the savings pot and retirement pot. This means that the old rules will still apply to all their savings.

3 What happens to my existing retirement savings?



Today your retirement savings are invested in one pot for your retirement.

You can only withdraw cash from these savings if you leave your employer or retire. Rules apply.

Your retirement savings up to 31 August 2024, and any investment growth on these savings, **will not be affected by the new rules**.



There is one exception though:

A small amount of your savings from your vested pot will be moved to your new savings pot. This amount is expected to be 10% of your savings. This first amount in your savings pot can't be more than R30 000. You'll be able to withdraw the money in your savings once in every tax year if it's more than R2 000. You'll pay tax on any cash you withdraw.



Scan the QR code to read more about the two-pot system.

<https://mymoneymatters.alexforbes.com/twopot.html>





Why do we need new rules?

These changes are needed because many members struggle financially in retirement.

In the past, members often withdrew their retirement savings in cash when they changed jobs. Because of this, members often don't have enough to live on when they retire. The latest draft rules for the retirement pot mean that members must keep these savings invested for retirement and use them to set up a retirement income when they reach retirement.

The new rules will help members to have enough to live on in retirement.

The latest rules for the **savings pot** mean that members can now get some cash from their retirement savings without leaving their job or retiring. Members can withdraw these savings once in a tax year if they have at least R2 000 in their savings pot.



Why has National Treasury made these changes to retirement fund rules?

National Treasury has been making changes to retirement fund rules for many years. The changes that we expect to apply from 1 September 2024 and the other changes that have already been made have two main aims:

- 1 To increase the retirement income that members receive when they retire
- 2 To help members get through financial challenges that may happen before retirement age

The latest rule changes intend to help retirement fund members balance their needs now with their future needs.

Alexforbes recommends that you keep all your retirement savings invested for retirement whenever possible, including any savings in your savings pot.

Even though the new rules allow you to withdraw some cash from your savings pot before retirement while you're still working, it's better to keep all your retirement savings invested for retirement. This will give you the best chance of having enough to live on one day when you stop working. If you really need to withdraw from your savings pot, an accredited financial adviser can help you make the best decisions for your future self.

Rather prepare for emergencies and unexpected expenses by saving for them separately instead of using your retirement savings. Having savings in another account can help you face financial challenges and **keep all your retirement savings for your future self.**





The two-pot system seems complicated. What do I need to know?

Once the new laws are final, we'll guide you with clear information to understand your options. You can also get help from a knowledgeable and experienced financial adviser to make decisions that are right for you based on your needs and goals. Financial advice helps you make the most of your money and gives you confidence in your choices.



The consequences of withdrawing cash before retirement:

- + Paying tax
- + Having less retirement income
- + Having less cash at retirement



How the changes may help members get through financial challenges

Some retirement fund members have unexpected expenses or emergencies that they aren't prepared for. Being able to withdraw some cash from their savings pot may help these members get through a financial challenge instead of needing to borrow money. Many South Africans are already struggling with debt. The average person uses 65% of their income to repay debt. Borrowing more money makes it even more difficult to afford expenses now and in future.

The latest draft retirement fund rule changes aim to give members the best chance of getting through financial challenges.

Rather prepare for emergencies and unexpected expenses by saving for them separately instead of using your retirement savings. Having savings in another account can help you face financial challenges and keep your retirement savings for your future self.

>>> Save your savings pot for your future self!

If you have a query or need assistance with any of the information here, contact our Call Centre at 0860 896 768 or email twopotqueries@alexforbes.com.

Please speak to a financial adviser before you make any financial decisions.

Information is based on draft legislation as the law has not yet been finalised. The proposed starting date for changes is 1 September 2024.

Alexander Forbes Financial Services (Pty) Ltd is an authorised financial services provider (FSP 1177 and registration number 1969/018487/07), an approved retirement fund administrator (24/472) and an accredited Council for Medical Schemes organisation (ORG468).



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