

Understanding South Africa's New 'Two-Pot Retirement System' for Retirement Funds

South Africa is set to introduce a significant reform in its retirement funding system with the implementation of the 'Two-Pot system'¹. The Two-Pot system aims to address several key issues within the current retirement savings framework by balancing the need for long-term savings with the need for short-term financial flexibility, addressing both immediate financial pressures and future security.

The new legislative amendments governing this system are due to come into effect on **1 September 2024**.

Challenges the new system aims to solve

- **Low savings rates:** It's widely accepted that only **6%** of South Africans retire comfortably, highlighting a pressing need for improved retirement planning.
- **Preservation challenges:** A mere **9%** of retirement fund members preserve their retirement savings when changing jobs, which can jeopardise their future financial stability (AlexForbes – Member Insights 2021). The current legislation allows retirement fund investors to withdraw all their savings when leaving employment, which can negatively affect their financial futures. The pending changes seek to limit the amount that investors can withdraw and encourage the preservation of retirement funds.

Key goals of the new system

- **Improved retirement savings:** By mandating that part of the savings must be preserved until retirement, the system aims to provide better financial security and stability for individuals in their retirement years.
- **Increased flexibility and accessibility:** By introducing a structure where one pot of savings is accessible for emergencies. This provides members with the ability to access funds when urgently needed without compromising their long-term retirement savings.
- **Encouragement of continued contributions:** The system encourages continued contributions to retirement funds by providing a clear and structured approach to savings, with defined pots for different purposes.

Who does it affect?

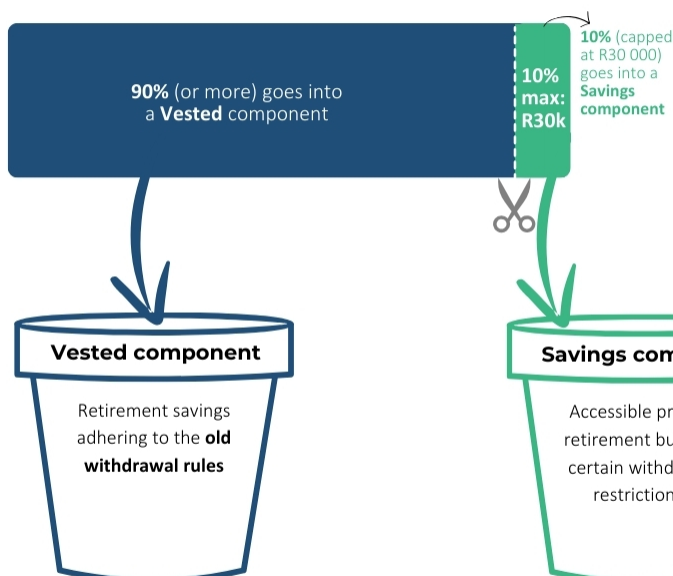
The Two-Pot system will apply to all retirement funds, including members in the private and public sectors, except for certain legacy retirement annuity policies, or funds without active members. Members aged 55 or older as of 1 March 2021 can choose whether to participate.

How will it work?

From **1 September 2024**, retirement funds will be divided into three components or "pots". The diagram below aims to illustrate how each of these components integrates.

On 1 September 2024

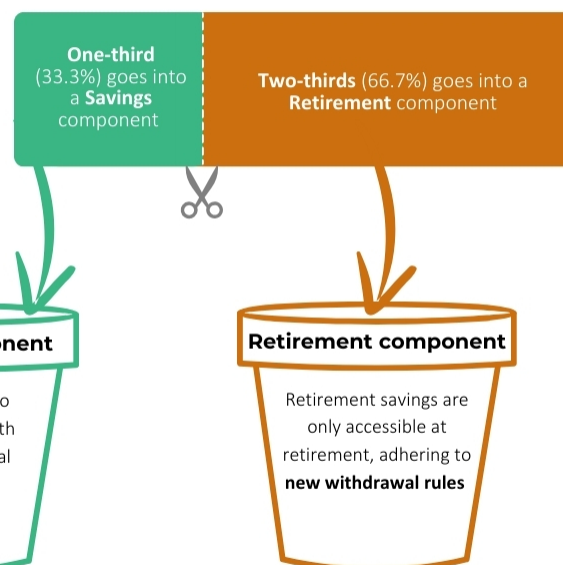
Your **retirement savings** will be split into **two parts**:



**See savings component withdrawal restrictions illustration.
Based on information available on 10 July 2024.*

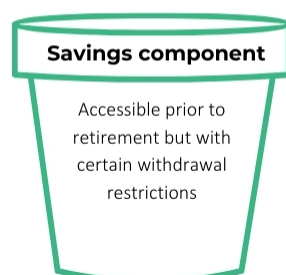
After 1 September 2024

Any new retirement savings **contributions** will be split into **two parts**:



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Savings component withdrawal restrictions



One withdrawal window between 1 Sept 24 and 28 Feb 25
(and then every tax year going forward from 1 Mar 25)

No maximum:
Up to **100%** of value in savings component

Minimum withdrawal:
R2 000



TIP

Remember, these savings are for your retirement. Think twice before withdrawing. Focus on building an emergency fund alongside your retirement savings.

IMPORTANT INFORMATION

- One withdrawal per tax year per retirement account
- Withdrawals get taxed at your marginal tax rate
- For you to be able to withdraw the maximum of R30,000, you need at least R300,000 in retirement savings
- At retirement (minimum age of 55) you can either combine the savings with your retirement component to buy an annuity or withdraw the funds (subject to retirement lump sum tax)

Based on information available on 10 July 2024.

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Important information for each component

1. Savings component

- On 01 September 2024, a maximum of **10%** of retirement fund members' existing retirement savings, **capped at R30 000**, will be transferred to their savings component. This amount is referred to as the 'seeding'² amount. This is a once-off event and will be **applied on an account level**. Therefore, a member may have access to more than R30 000 in total, depending on the size of their various retirement savings accounts.
- A member will have full access to withdraw from their savings component once per tax year, with a **minimum withdrawal amount of R2 000** and no maximum amount. Withdrawals will be taxed at the marginal tax rate.
- When members reach retirement age (55), they have two options: either add the savings pot to the retirement pot to buy an annuity³ or withdraw the entire amount, which will be taxed, along with per the retirement lump sum tables.

2. Retirement component

- The retirement component will be made up of **two-thirds** of all contributions made from **1 September 2024** onwards and is not accessible before the retirement age of 55 (exclusions apply).
- From the retirement age of 55 onwards, members will have to allocate the full amount in their retirement component to purchase an annuity.
- The retirement component may only be accessed as a cash lump sum before retirement in the event of a member's emigration, the cessation of South African tax residence as per the current "3-year rule", or on the expiry of a non-resident member's South African work or visitor's visa.

3. Vested component

- All funds accumulated in a member's retirement fund up until 31st of August 2024 will be ring-fenced in a separate "vested"⁴ pot". These retirement savings will continue to be regulated in terms of the rules that apply up to 1 September 2024.

Other important information

- No transfer can be made out of the retirement pot, but transfers can be made into it from other pots. No transfers can be made into the savings pot, unless from other savings pots.
- The retirement pot and the savings pot must be held in the same retirement fund – for example, members cannot hold the savings pot in their old employer's fund and the retirement pot in their new employer's fund.
- All defined benefit funds, including the Government Employees Pension Fund (GEPPF), will be included in the new regime but different calculations may apply.

Exemptions

- Certain legacy retirement annuity policies will be exempt from the Two-Pot requirements.
- Members of provident funds who were over 55 as of 1 March 2021 have a choice to either continue contributing to their vested provident fund pot as they have been or choose to opt into the new Two-Pot system.

The Two-Pot system represents a big step forward for retirement planning in South Africa. Splitting funds into separate savings and retirement components encourages careful long-term planning while allowing for some flexibility in case of emergencies. One hope for the industry would be that clients should only be encouraged to access retirement savings as a last resort in order to maximise retirement savings and capitalise on the effect of compounding growth⁵.

As we approach the start date of 1 September 2024, retirement fund members need to understand these changes. Consulting with your financial adviser can help you navigate these reforms and make the most of your retirement savings.

[1] Two-Pot system: The new structure dividing retirement funds into a savings component and a retirement component.

[2] Seeding: Refers to the initial capital or funds to start the investment or in this case the savings pot.

[3] Annuity: A financial product that pays out a fixed income stream to someone each year, typically for the remainder of their life.

[4] Vested rights: Accumulated rights that cannot be forfeited, typically related to retirement benefits.

[5] Compounding growth: Is when the money you earn on an investment also earns money, causing your investment to grow faster over time.

MARKET REPORT

30 06 2024

		3m	YTD	1yr	3yr pa	5yr pa	10yr pa	5yr Vol1	10yr Vol1
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LOCAL MARKET INDICES

SA Equity	ZAR	8.0%	5.4%	8.4%	10.2%	9.7%	7.3%	16.9%	14.3%
SA Listed Property	ZAR	5.3%	9.2%	25.6%	11.0%	0.4%	2.8%	27.0%	21.3%
SA Bonds	ZAR	7.4%	5.3%	13.1%	7.0%	7.2%	7.4%	8.7%	8.2%
SA Cash	ZAR	2.1%	4.2%	8.5%	6.5%	6.1%	6.6%	0.5%	0.4%
Balanced Benchmark	ZAR	5.2%	5.5%	10.3%	10.0%	9.6%	8.3%	11.6%	9.7%
SA Inflation (1 month lag)	ZAR	1.2%	2.3%	5.2%	6.0%	5.0%	5.0%	1.4%	1.4%

GLOBAL MARKET INDICES BASED TO USD

Global Equity	USD	2.7%	11.5%	20.3%	7.0%	11.9%	9.3%	17.8%	15.1%
Emerging Markets Equity	USD	4.9%	7.1%	11.8%	-5.5%	2.7%	2.5%	18.6%	17.4%
Global Property	USD	-2.4%	-4.6%	4.5%	-4.8%	-0.7%	2.0%	20.8%	16.8%
Global Bonds	USD	-1.1%	-3.2%	0.8%	-5.5%	-2.1%	-0.5%	7.5%	6.2%
US Cash	USD	1.4%	2.7%	5.5%	3.1%	2.2%	1.6%	0.6%	0.5%

MAJOR INDICES BASED TO RANDS

SA Equity	ZAR	8.0%	5.4%	8.4%	10.2%	9.7%	7.3%	16.9%	14.3%
Global Equity	ZAR	-1.0%	10.3%	16.3%	16.1%	17.8%	15.4%	15.9%	15.8%
Emerging Markets Equity	ZAR	1.2%	7.0%	8.0%	2.6%	8.1%	8.2%	13.9%	13.7%
Global Property	ZAR	-5.9%	-5.7%	1.0%	3.3%	4.6%	7.7%	18.8%	17.3%
SA Bonds	ZAR	7.4%	5.3%	13.1%	7.0%	7.2%	7.4%	8.7%	8.2%
Global Bonds	ZAR	-4.7%	-3.4%	-2.6%	2.6%	3.1%	5.0%	13.4%	13.8%

COMMODITIES

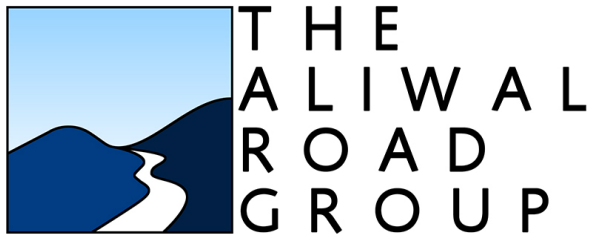
Gold (US Dollars)	USD	5.2%	13.0%	21.8%	9.6%	10.4%	5.7%	14.3%	13.6%
Gold (Rands)	ZAR	1.5%	12.8%	17.7%	19.0%	16.3%	11.5%	18.0%	16.9%

CURRENCIES

Rand / Dollar	ZAR	3.8%	0.5%	3.2%	-8.3%	-5.2%	-5.5%	14.2%	14.8%
Rand / GBP Pound	ZAR	3.6%	1.1%	3.6%	-5.2%	-5.2%	-2.4%	12.4%	14.2%
Rand / Euro	ZAR	4.6%	3.4%	5.0%	-4.8%	-4.0%	-3.0%	11.8%	13.1%

KEY

Asset Class	Represented By:
SA Bonds	Satrix Bond Index Tracker
SA Cash	STeFi
SA Equity	Satrix ALSI Index Tracker
SA Listed Property	Satrix Property Index Tracker
Emerging Markets Equity	iShares Emerging Markets Equity Index Tracker
US Cash	Fidelity Institutional Liquidity The United States Dollar
Global Bonds	iShares Core Global Aggregate Bond ETF
Global Equity	iShares Developed World Index Tracker
Global Property	iShares Developed Real Estate Index Tracker



June 2024

Spot Rates		28-Jun-24	Latest Quarter	1 Year Ago	5 Years Ago	10 Years Ago	20 Years Ago
CURRENCIES							
Rand/US\$	Rand	18.3	18.9	18.8	14.1	10.6	6.2
Rand/GBP	Rand	23.1	23.9	23.7	17.9	18.2	11.3
Rand/EUR	Rand	19.6	20.5	20.5	16.1	14.6	7.6
RATES							
SOFR 6m \$	US\$	5.7	5.6	5.7	2.2	0.3	1.9
Repo Rate	Rand	8.25	8.25	8.25	6.75	5.50	8.00
Prime	Rand	11.75	11.75	11.75	10.25	9.00	11.50
All Bond Index Yield	Rand	10.3	10.7	11.6	9.3	8.5	9.7
COMMODITIES							
Gold (\$/oz)	US\$	2,326.3	2,214.3	1,911.5	1,412.3	1,316.9	395.0
Platinum	US\$	1,012.0	907.0	900.0	818.0	1,480.0	793.0
Oil (Brent Crude) \$	US\$	86.4	87.4	74.3	66.9	112.6	34.1
INFLATION							
SA Inflation	%	5.2	5.6	5.4	4.5	6.8	9.4

data provided by FE Analytics

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