



## TWO-POT SYSTEM FOR RETIREMENT SAVINGS

### Vol. 1: We answer your questions about National Treasury's proposed "Two-Pot" retirement system

We all know that South Africans are being financially squeezed on every side. We know that we need to save for our retirement, but we also have to cover those financial emergencies which can crop up at any time. To assist in managing these long and short term concerns, (and improve outcomes for retirement fund members), National Treasury is proposing a new two-pot system for retirement savings. Old Mutual SuperFund supports the proposal, as it's geared towards long-term saving for retirement.

The new two-pot system is really good news for members, because it will solve two problems at the same time:

- It creates the option for a member to access a portion of their retirement savings before retirement, without having to resign from their job. This is intended to help members in times of unforeseen financial emergencies.
- It will introduce partial compulsory "preservation". Over time, this will result in much better retirement outcomes for members. Preservation means keeping your retirement savings invested until you retire and not cashing out every time you leave your job.

Here's how it will work, based on the current information from National Treasury.

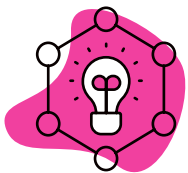
#### WHAT'S THE THINKING BEHIND THE TWO-POT SYSTEM?



Simply, National Treasury saw how many South Africans struggled financially through the pandemic because they don't have "rainy day" funds. They want to provide a way for them to access a portion of their retirement savings in emergencies. But – more importantly – Treasury also wants to help people preserve their retirement savings.

Under the existing regulations, you can withdraw all your retirement savings whenever you change jobs. In the two-pot system, you can access a portion of your savings without having to change jobs, but will always have to save two-thirds of it until you retire. It's designed to encourage preservation and to provide better retirement outcomes while still meeting the need to address short-term emergencies.

#### HOW WILL THE TWO-POT SYSTEM WORK?



From a particular prescribed date (the "Effective Date"), your retirement fund contributions will go into two 'pots': a **Savings Pot** and a **Retirement Pot**. One-third of your contributions will go into the Savings Pot (which you can access once a year, if you need it). The remaining two-thirds will go into the Retirement Pot (which you won't be able to touch until you retire).

When you retire, the total amount in your Retirement Pot must be used to purchase a retirement annuity. If two thirds of your "**Vested Pot**" (see below) plus the balance of your Retirement Pot has less than R165 000 when you retire from the fund, your entire retirement benefit can be accessed as a lump sum.

What about your existing retirement savings, you may ask? Well, the "two-pot" system is actually a "three-pot" system. The third pot (the "Vested Pot") is all the savings you have made up until the new system starts, as well as investment growth into the future. The Vested Pot will continue to be treated the same way as it was in the past. In other words, all the rights and limitations to access that applied to your retirement savings prior to the Effective Date will continue to apply to this pot.



### HOW WILL THE THREE POTS DIFFER?

SAVINGS POT	RETIREMENT POT	VESTED POT
<ul style="list-style-type: none"> <li>• One-third of your future retirement contributions from the Effective Date will be saved here and grow with investment return.</li> <li>• This money will be accessible (subject to a set of rules) before retirement.</li> <li>• Access will be granted once a year and the member will incur costs related to withdrawal from this pot.</li> <li>• Withdrawal is set at a minimum of R2 000. There is no maximum.</li> <li>• Any amount accessed from the Savings Pot prior to your death or retirement from the fund will be taxed at your marginal rate of tax.</li> </ul>	<ul style="list-style-type: none"> <li>• Two-thirds of your contributions will be saved in this pot, and grow with investment return.</li> <li>• This pot will only be accessed at death or retirement (an exception to this is being considered – namely that this pot is also accessible if you get retrenched by your employer).</li> </ul>	<ul style="list-style-type: none"> <li>• All your existing retirement savings as at the Effective Date will stay in this pot and grow with investment return.</li> <li>• You will still be able to access this pot if you leave your employer before retirement.</li> </ul>

### WHO WILL BE AFFECTED?



This new system will affect all types of retirement funds – i.e., pension funds, provident funds, retirement annuity funds and preservation funds. Provident fund members over 55 years old on 1 March 2021 will have the option to continue with the old system, or to adopt the new system.

### HOW MUCH CAN I WITHDRAW (AND WHEN)?



The two-pot system is designed to encourage preservation of retirement savings, and **just because you can withdraw money from your Savings Pot doesn't mean you should**. Retirement funds are not structured to be used as transaction accounts: they grow through long-term investments and are designed to provide for certain events, such as retirement, death or permanent disability.

However, you will be able to access money from the Savings Pot before you retire, but only once a year. You will not have to give a reason for accessing your money. The minimum withdrawal amount from the Savings Pot is R2 000. There is no maximum amount. Anything withdrawn from your Savings Pot will be included in your taxable income for that tax year and taxed at your applicable marginal rate.

### WHEN WILL THIS NEW SYSTEM START?



The proposed Effective Date is 1 March 2024 – but that's already been pushed out from 2023. It's important to note that it remains a proposed date only. Also important is your existing retirement savings will not be impacted. Anything you've saved up to the Effective Date will still be governed by the old rules. We'll all start off on a clean slate.

### WHAT HAPPENS IN THE MEANTIME?



We'll keep you posted on any new developments as we wait for the Effective Date. If you have any questions, please speak to your company's HR manager or phone the Old Mutual SuperFund Service Centre at 0860 20 30 40.

### DO GREAT THINGS EVERY DAY