Understanding the two-pot retirement system

Who is it for?

On the Itransact platform this is for any investor invested in the Itransact Retirement Annuity or Preservation Fund.

When will it be implemented?

The implementation date for the two-pot retirement system has been set for 1 September 2024.

How does it work?

As of 1 September 2024, any contribution made towards your retirement annuity (debit order or lump sum) or your preservation fund, will automatically invest 1/3 into a savings component and 2/3 into a retirement component.

The savings component allows one withdrawal per tax year, with a minimum of R2,000 and a maximum equal to the total balance in the account. The retirement component, however, must remain invested until retirement, as it is designed to provide income for your retirement

This new rule will only apply to contributions made on or after 1 September 2024. These two components are referred to as your non-vested component.

What does a vested and non-vested component mean?

Vested refers to your retirement contributions that are subject to the rules of the previous dispensation. Non-vested refers to the portion of your retirement savings that are now subject to the new rules and from which you can access money prior to retirement (annual limits apply).

What are the tax implications if I withdraw from my Savings Pot?

Any withdrawals prior to retirement are fully taxable at marginal tax rates (as per current legislation). Your request for a withdrawal is irrevocable once a tax directive has been applied for. Due to the tax payable and fees (if any) charged by the administrator, you will receive less than the amount applied for.

What happens to my current investment?

Any investments made prior to 31 August 2024 will remain in the vested component. Itransact will automatically switch 10% (maximum of R30 000) from this vested component to the savings component to cater for withdrawals. Also referred to as "seed capital".

What would happen if I choose to emigrate?

Should a member choose to emigrate, they will have access to the balance in the Savings Pot on the date of their emigration. The Retirement and Vested Pot within the Fund will not be accessible for a period of three years following emigration.

EXAMPLE

You have **R200 000** in your retirement savings on **31 August 2024** and your monthly contribution is **R900**.

31 August 2024

1 September 2024

Vested Component

- R20 000 (10% of R200 000), will be transferred to your savings component
- The remaining retirement savings in your vested component will be R180 000
- No further contributions will go to your vested component

Savings Component

- The amount in your savings component will be R20 000
- R300 of your contribution will go to your savings component every month
- It should only be accessed in emergencies or at retirement

Retirement Component

- R600 of your contribution will go to your retirement component every month
- You will not be allowed to withdraw the money until retirement

Ideally, your savings component should also be kept until retirement. However, it can be accessed for emergencies before retirement, though this would impact your savings when you retire.

Keeping as much money in your retirement savings as possible would allow you to retire more comfortably.

What happens at retirement?

Vested Component

You may elect a maximum one-third lump sum cash withdrawal (of the balance in this "pot" at retirement date) and the remaining balance is transferred to the Retirement Component to buy an annuity. Once you have reached normal retirement age (no earlier than age 55), no cash withdrawals are allowed and you must annuitise the minimum two-thirds value, even if you elect to transfer your retirement savings to another approved fund. Any lump sum "cash withdrawal" elected at retirement from this component is taxed in terms of the Retirement Lump Sum tax table meaning that the first R550,000 may be tax-free.

Savings Component

The balance in this "pot" on retirement can be withdrawn as a lump sum "cash withdrawal" or be moved to the Retirement Component to increase the amount available to provide for an annuity. The amount taken in cash from the Savings Component on retirement will be taxed using the Retirement Lump Sum tax table. The lump sum "cash withdrawal" amount selected from the Vested Component and the lump sum "cash withdrawal" amount selected from the Savings Component are added together at retirement, to determine the tax payable in terms of the Retirement Lump Sum tax table.

Retirement Component

The full amount available at retirement in this component must be utilised to buy an annuity. Your annuity will be bought with the value of the Retirement Component, plus a minimum two-thirds of the value of the Vested Component (the amount after a maximum one-third lump sum "cash withdrawal" has been selected), plus any amount available in the Savings Component (any balance not withdrawn).

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