National Treasury proposes revamped 'two-pots' retirement system in draft Pension Funds Amendment Bill

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The National Treasury has proposed further reforms to the “two-pots” retirement system, including a requirement for seed capital, after the government identified two concerns with the current regime.

Treasury yesterday briefed the Parliament’s Standing Committee on Finance on the draft Pension Funds Amendment Bill (PFA Bill) 2024, after it was reintroduced in the National Assembly last week.

The “two-pots” system seeks to divide pension contributions into two separate pots: a savings pot and a retirement pot, with the effective date being September 1, 2024.

The Bill proposes that retirement fund members be allowed to allocate one-third of their contributions from the date of implementation to an accessible portion of those members’ retirement savings.

This will receive a once-off capital boost from a vested component, with a minimum of 10% of a member’s retirement fund value on 31 August 2024, up to R30 000.

The other two-thirds will be allocated to a portion of the member’s savings that will be preserved until retirement.

These contributions, together with all further growth and earnings cannot be touched until retirement, and must then be used to buy a retirement income, unless legislated minimum values apply.

Treasury director of economic policy Alvinah Thela said there were two primary concerns regarding the current design of the retirement system that had necessitated the two-pots system.

Thela said the first concern was the lack of preservation before retirement, and the second the lack of access even in cases of emergency by some households that are in financial distress that have assets within their retirement funds.

In an attempt to address these, Thela said the government therefore proposed a further reform to the retirement saving regime by introducing preservation of retirement savings when members change jobs and further allow limited access to retirement savings before retirement without resignation.

“It is proposed that the regime makes provision for the creation of seed capital. Seed capital will allow immediate access to a balance that a member has on implementation date of the throughput system. So this seed capital is a starting balance in the savings component on implementation date,” Thela said.

“So this starting balance, the seed capital, will be in the savings component. It will be transferred from what a member has accumulated when the two-pots system starts. That will come from what we call the vested component.

“So to limit adverse impact liquidity and market impact, we are proposing to limit the seed capital to the lesser of 10% of the “vested component” and R30 000. This is intended to not erode the retirement benefit but at the same time enable pre-retirement access to the benefits.”

Thela said that in accordance with this new regime, retirement funds will on or after implementation date, be required to create a component known as the “savings component, which will be housed within the current retirement fund.

Amounts from the “savings component” will be accessible without the member having to cease employment or having to resign or retire from their respective fund.

A member will be allowed to make a single withdrawal within a year of assessment and the minimum withdrawal amount is R2 000.

Thela said that in the event that a member resigns from employment and such member has already made use of their single withdrawal during that tax year, an additional withdrawal will be allowed provided the member’s gross interest in their “savings component” is less than R2 000.

Withdrawals from the “savings component” will be added to the individual’s taxable income and will be taxed at their marginal tax rates.

In the event that a member dies, their beneficiary can opt to receive the benefit in the “savings component” as allowable in terms of section 37C of the Pension Funds Act.

“Retirement funds will on or after implementation date, be required to create another component known as the “retirement component, which will be housed within the current retirement fund,” Thela said.

“The assets in the “retirement component” will be required to be preserved until retirement. Once a member has reached retirement age and retires, the “retirement component” is to be paid in the form of an annuity, including a living annuity, subject to the annuitisation threshold of R165 000.”

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