

Two-pot retirement reform hits teething problems...again

Retirement fund managers have until the end of the month to comment on the 2024 Draft Revenue Laws Second Amendment Bill, which informs the framework around which the two-pot retirement reform system will operate.

 By [Katja Hamilton](#) 11 Mar 2024



Source: Supplied. 123RF

The Bill seeks to make the language of existing laws in it clearer and to streamline the directives system for administrators and Sars as a means of streamlining the tax collection process.

The proposed two-part retirement system allows for the withdrawal of a third of pension-fund savings for emergencies, prior to retirement - which Finance Minister Enoch Godongwana says will be possible from September this year.

However, While Treasury and Parliament have settled on 1 September as the designated implementation date, it hasn't been officially confirmed in either the draft- or final legislation. What can be expected to happen between now and then is that the National Council of Provinces must formally pass the bill, and the the president must sign it, at which point it will be enacted.

Already, concerns have arisen regarding the phrasing in the current draft as pertaining to death benefits and tax deductions as highlighted in Section 37 of the Pension Funds Act. But Treasury has reassured the industry that the aim is to maintain the current treatment of death benefits.

Another issue that requires resolution is the requirement for retirement fund managers to seek a nil-tax directive when a member is transferred from one retirement fund to another, regardless of whether the transfer is voluntary or compulsory.

Under the current legislation, nil-tax directives must also be sought for transfers within the same fund, such as from the vested component to the retirement component. Sources confirm Treasury is addressing this.

Tax implications and savings protection

In the meantime, all retirement funds affected by the two-pot system must amend their fund rules, which must then be submitted to and approved by the Financial Sector Conduct Authority.

According to the 2024 National Treasury Budget Review, contributions to the fund remain tax deductible a tax free while growing in it.



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Furthermore, Godongwana has reassured the public that savings accumulated up to the date of implementation will not be affected, except for the initial seed capital amount.

"This amount will be the lower of 10% of the fund value on 31 August 2024 or R30,000, and will be transferred from accumulated retirement savings to the savings component to assist fund members who may prefer an immediate withdrawal due to a financial emergency. This seeding will be a once-off event. If not used, it will still be available in the future," he said.

Pre-retirement withdrawals from the savings component will be taxed at marginal rates, like all other income. However, when taxable income is lower, taxpayers will be taxed at lower rates.

"Only one withdrawal may take place in a tax year, and the minimum withdrawal amount is R2,000. The optimal option is still to preserve retirement savings as long as possible, as the amounts grow at compounding rates and can attract lower tax rates.

"Amounts left in the savings component on retirement can be withdrawn and will be taxed according to the retirement lump sum table, which includes a tax-free lump sum of R550,000," National Treasury said.

Critiques of the system

The two-pot retirement system was first proposed in February 2021. At the time the Bill was published, the plan was initially for the amendments in the Bill to take effect on 1 March 2023.

This was changed to 1 March 2024 by National Treasury, and the new proposal date is now 1 September 2024.



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The proposed two-pot system has come under fire, with some industry experts arguing that it could undermine the retirement-savings plans of South Africans.

"There is a concern that the funding that will be made available for people to withdraw could be used for consumptive purposes - or to pay off debt," says George Glynn, head of research at ETM Analytics. "This would be less than ideal. But, the funding could also be used constructively - for the purposes of starting a small business.

"Whether or not the two-pot system is a good idea depends on what the funds are ultimately used for."

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