

INVESTMENT FUNDS

Two pots of gold: What you should know about the “two-pot” retirement system

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The proposed “two-pot” retirement system would allow people to have the best of both worlds – early access to a portion of their retirement funds, should it be necessary, while still preserving a significant portion for when they retire. The changes are set to take effect on 1 March 2024, but without further draft legislation being published in February, there are concerns that industry players will not have time to implement changes to meet this deadline. This article explores what you need to know about the proposed system and its current status.

What is the “two-pot” system?

In July 2022, the Minister of Finance published the draft revenue laws amendment bill (**the Bill**), which proposes significant changes to the present retirement system by replacing the current one-pot system with a “two-pot” system. The two-pot retirement system will apply to pension funds, pension preservation funds, provident funds, provident preservation funds and retirement annuity funds (**the Funds**). Two “pots” will be established, the “**savings pot**” and “**retirement pot**”. Under the new system, members of the Funds (**Fund Members**, each **Fund Member**) will be able to withdraw the funds in the savings pot, whereas the funds in the retirement pot will remain preserved until retirement. There will also be one additional pot: the “**vested pot**”.

What happens to the retirement funds I have saved up before the two-pot system is implemented?

A Fund Member’s retirement funds which existed immediately prior to 1 March 2024 will be placed in what is known as a “vested pot”; funds in the vested pot will remain subject to the present rules.^[1] No contribution may be made to the vesting pot after the two-pot system has been implemented, except in the case of provident fund members who were 55 years old or older on 1 March 2021, whose pension benefit regime will remain unchanged despite implementation of the new system.

How will my retirement contributions be allocated to the two-pots?

The savings pot will be allocated no more than one-third of a Fund Member’s retirement contributions. On the other hand, at least two-thirds of the retirement contributions must be allocated to the retirement pot. Any contributions not allocated to the savings pot must be allocated to the retirement pot.

How will withdrawals work and what happens when I retire?

Fund Members will be entitled to withdraw from the savings pot only once in a 12 month period, at a value of no less than R2000. On the other hand, withdrawals will not be permitted from the retirement pot. If, at the time of retirement, there is money in the savings pot, this will be paid out as a lump sum. At retirement, the accumulated funds in the retirement pot must be used to purchase a retirement annuity, subject to the minimum threshold amount required to purchase an annuity.

Why are two-pots better than one?

Currently, Fund Members can fully access their pension funds and provident funds when they resign or retire from their employment. In the media statement issued by the National Treasury on 31 July 2022, titled *“Retirement Reform: Draft Legislation for the Two-Pot System”* (**the Media Statement**), the main issues and reasons for the two-pot system were discussed.

The first issue was that a Fund Member may need to access the funds for a specific issue. However, on resignation they would have full access to the funds and this may place long-term retirement savings at risk.[2] The second issue is that there are Fund Members who are financially distressed and have assets in investment funds that they cannot access.[3] A Fund Member may require the additional funds for an immediate need but would only be able to access these funds to address the immediate issue if they were to resign. The failings of the current system became readily apparent during the COVID-19 and concomitant lockdown, when many Fund Members were under financial distress, but unable to access their retirement funds without resigning from their work or other shams, like divorcing their spouses.[4]

The two-pot system provides a “life-line” to Fund Members in times of financial distress or when immediate short-term obligations arise by allowing access to the savings. This “life-line” is provided while ensuring that Fund Members retain retirement savings by placing restrictions on the withdrawals from the savings pot and prohibiting withdrawals from the retirement pot.

What’s the catch?

Overall, this proposed retirement system should have a positive effect on Fund Members. However there will be an administrative burden placed on Funds. Funds will be required to amend their rules to regulate the two-pot retirement system, new sophisticated systems will need to be put in place, employees will need to be trained and Fund Members educated.[5] Funds will have a greater burden of direct engagement in the current system as Fund Members will be able to initiate their claims themselves instead of through their employer. There will also be a cost to be borne by all Fund Members.

The current concern for Funds and their administrators is the timeline required for them to prepare for the implementation of the two-pot retirement system.[6]

At the time the Bill was published, the plan was initially for the amendments in the Bill to take effect on 1 March 2023. National Treasury confirmed that the first phase of the legislation amendments, which would create the two-pot retirement system, should take effect on 1 March 2024;[7] but it did not however publish any further draft legislation for comment, as some in the industry expected.[8]

Although the National Treasury in the Budget Review 2023 recognises that there are areas in this proposed retirement system which require additional work, namely *“a proposal for seed capital, legislative mechanisms to include defined benefit funds in an equitable manner, legacy retirement annuity funds and withdrawals from the retirement portion if one is retrenched and has no alternative source of income”*,[9] its answer to this is that the first three issues will be addressed in the draft legislation to be published and the last issue will be reviewed in the second phase of the implementation of the two-pot retirement system.[10] This indicates that the proposed retirement system will be implemented in at least two phases and results in the unfortunate position of piecemeal legislation. It is unclear when the new draft legislation will be published, but there are concerns on whether or not the Funds will have sufficient time to prepare for this proposed retirement system.

Conclusion: gold at the end of the rainbow?

Despite the administrative burdens to be placed on the Funds and their administrators, the proposed retirement system appears to be generally welcomed. The proposed retirement system will provide Fund Members with the flexibility required to access a portion of their retirement funds, while still upholding the purpose of retirement funds by placing restrictions on access of the largest part for retirement purposes.

However, the delay in further required legislation on the two-pot system is placing industry players under pressure to be ready for the 1 March 2024 implementation date.

Footnotes

[1] The Bill refers to “1 March 2023”. However the proposed date of implementation was changed to 1 March 2024.

[2] The Media Statement, pages 3 and 4.

[3] Ibid.

[4] For further comment on how the COVID-19 pandemic and lockdown made apparent the failings of the current system, see the comments of Richard Carter, Head of Assurance at Allan Gray, at [Allan Gray | Making sense of the proposed two-pot retirement system](#).

[5] See the comments of Old Mutual Retirement Reform Executive, Michelle Acton, at [Kick-off date for implementation of two-pot pension system urgent](#)

[6] Ibid.

[7] Budget Review 2023, page 51.

[8] See the discussion by N Moodley in the Daily Maverick's article *Retirees on hold after Budget 2023 delays the 'two-pot' retirement system*.

[9] Budget Review 2023, page 51.

[10] Ibid.



Armand Swart

Director

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Robert Driman

Director

[View Profile](#)



Thabisa Yantolo