

## Retirement reform - Two-pot system

### A big picture overview

Contributions to 31 August 2024

VESTED POT
Before 1 September 2024



This pot refers to the accumulated benefit in the fund as at the day immediately before implementation of the 'two-pot system' (i.e. as at **31 August 2024**)

It is subject to the **tax and fund rules** that applied prior to the implementation of the two-pot system.

Any cash lump sum withdrawal benefits taken before retirement will be subject to tax in accordance with the lump sum withdrawal tax table.

If a member wishes to transfer these funds to another pot before retirement, then it may **only be transferred to the retirement pot**, after which the rules of the retirement pot will apply to the transferred funds.

No further contributions can be made to this vested pot from 1 September 2024 (except for certain older members).

Contributions from
1 September 2024
onwards

**SAVINGS POT**One third of contributions



Members can make one withdrawal from this pot per **tax year**.

Minimum **R2** 000 with no maximum.

Withdrawals from the savings pot will be taxed at marginal tax rates.

If a member wishes to transfer these funds to another pot **before retirement**, then it may only be transferred to the retirement pot, after which the rules of the retirement pot will apply to the **transferred funds**.

At retirement, the remainder of the savings pot may be withdrawn as a cash lump sum, taxed in accordance with the retirement tax table.

RETIREMENT POT

Two thirds of contributions



Funds in the retirement pot cannot be accessed by members until retirement.

The funds in this pot must be used to provide for an annuity, unless the value is lower than an amount prescribed from time to time, in which case you may withdraw it as a lump sum.

Deductions in terms of Section 37D will be affected proportionately across all three pots. These may include maintenance orders, divorce orders etc.

"Marginal tax rate" refers to the member's personal income tax bracket. "Withdrawal tax table" and "Retirement tax table" refer to fixed scales in the Income Tax Act that calculate the tax payable when money is taken before or at retirement.



10% of the value of the member's share in the retirement fund immediately before 1 September 2024, subject to a maximum of R30 000, will be transferred to the savings pot.

This will be known as the seeding capital.

\*Current members of the provident fund who were 55 years or older on 1 March 2021 will not automatically participate in the two-pot system. If they do not choose to be subject to the two-pot system, they may continue to contribute to the vested pot. If no choice is made, members will remain outside the two-pot system.

### **Tax and Processing fees**

#### Mpho's scenario

- Mpho earns a taxable income of R250 000 per year.
- ➤ His marginal tax rate is 26%.
- ➤ He has R5 000 in her savings pot on 1 September 2024.
- ➤ He decides to withdraw R3 000.
- His processing fee is R300\*.

\*This processing fee is for illustrative purposes only.

# Marginal tax rates for tax year ending 28 February 2025

26% for taxable income above R237 100 31% for taxable income above R370 500 36% for taxable income above R512 800 39% for taxable income above R673 000 41% for taxable income above R857 900 45% for taxable income above R1 817 000

18% for taxable income below R237 100

Calculating Mpho's estimated tax:
R3 000 x 26% = R780 tax\*

\*SARS will instruct the amount of tax to be deducted. The amount to be deducted could include arrears taxes too.

- Processing fees are R300.00.
- Processing fees will apply to members withdrawing money from their savings pot.

# In summary these are the fees and taxes Mpho may be charged:

Initial claim amount	R3 000

Less tax
R 780

Less processing fee
R 300

Less outstanding tax owing if applicable to SARS (IT88)

As you can see, it can be expensive to withdraw money from your savings pot. These withdrawals reduce the amount of cash available when you retire. You may need to have cash available at retirement for emergencies and planned expenses. Your savings pot may also be needed to increase your retirement income. You can get up to R550 000 tax free on cash you take when you retire.

Seed capital calculations and allocations to your savings pot will be done from 31 Aug to 2 Sept 2024.



Mpho will receive after deductions R1 920