South Africa's new 2-pot retirement system

An easy-to-follow guide

On 1 September 2024, South Africa introduced the 2-pot system for pension funds. This system aims to balance immediate financial needs with long-term retirement security by giving you access to a portion of your savings in times of serious financial need.

Even though this is good news, remember you're saving for retirement. Think carefully before withdrawing, as it can significantly impact your long-term financial security.

Retirement savings
Before 1 September 2024

Your current savings

90% into your vested pot

10% (max R30 000) into your new savings pot

Vested pot
Stays invested, old rules apply

- You can cash out or transfer to a preservation fund if you change employers
- From 1 September 2024, you can no longer contribute to this pot

New 2-pot retirement system
From 1 September 2024

Your future contributions

33% into your savings pot

67% into your retirement pot

Savings pot
New rules apply

- **One withdrawal** allowed per tax year
- Taxed at your marginal tax rate
- Admin fees apply

Retirement pot
New rules apply

- **No withdrawals** until you retire
- Grows with monthly contributions and investment returns
- Used to buy an annuity so you can receive a regular income when you retire

How much can I withdraw from my savings pot?

You can withdraw a minimum of **R2 000** up to the maximum limit available in your savings pot.

What are the benefits if I don't withdraw from my savings pot?

The savings pot comes with a tax incentive at retirement. The first **R550 000** is tax-free, and you will be taxed according to retirement tax tables, which are lower than income tax rates.

How much tax do I pay?

You are taxed at your marginal tax rate, which is the highest rate on a portion of your income. The more you earn, the higher the tax on extra income. If you owe tax to SARS, it will be deducted from your savings withdrawals.

Can I still take a lump sum at retirement if I withdraw all my savings?

Your retirement pot will be used to buy an annuity and provide you with an income after retirement. You can withdraw **1/3** of your vested pot and any money in your savings pot. If there is no money left in your vested pot or savings pot at retirement, you will not have access to a lump sum in case of emergencies or big expenses.

If you were aged 55 or older on 1 March 2021 and are a member of a provident fund, you'll have to opt into the 2-pot system. This applies to provident funds, not pension funds.

Example: How withdrawing from the savings pot affects retirement

Themba has existing retirement savings of R500 000

- On 1 September 2024, **R30 000 (10% or max R30 000)** will go into his savings pot
- He will have **R470 000** left in his vested pot
- Any new contributions will go into his savings and retirement pots

Vested pot · Savings pot · Retirement pot

If he withdraws from his savings pot:

- His retirement savings will decrease, leaving him with less for the future
- This could mean a smaller pension and less financial security when he retires

If he doesn't withdraw from his savings pot:

- The savings will grow, and he can use it once a year in an emergency
- He can withdraw it at retirement as a lump sum (subject to tax) or use it to boost his pension

Remember, the 2-pot system is designed to keep your retirement savings safe until you retire. Stay informed and consider your financial security at retirement before withdrawing from your savings.

For more information, speak with a registered financial advisor.

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