Two-Pot Retirement System
Frequently Asked Questions

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Answering 19 Questions

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1. What is the purpose of the two-pot retirement system?

The two-pot retirement system aims to address the low level of retirement savings in South Africa by introducing a new way of managing retirement fund contributions. The system allows for some flexibility in accessing a part of the savings in case of financial emergencies, while ensuring that most of the savings are preserved for retirement. The system also prevents people from cashing out their retirement savings when they change jobs, which is one of the main reasons why many South Africans retire with insufficient income. The system only applies to new contributions made after 1 September 2024, while the previous contributions and their growth will follow the old rules. The system tries to balance the immediate financial needs of members with the long-term goal of enhancing retirement savings.

2. Who is the two-pot retirement system meant for?

The new system will apply to all retirement funds, across funds in both the private and public sectors, excluding the legacy retirement annuity policies, or funds with no active participating members (such as funds in liquidation, beneficiary funds, closed funds or dormant funds). Members of provident or provident preservation funds that were 55 years and older on 1 March 2021 who have not opted to be part of the two-pot system will also be excluded.

3. What is changing with the two-pot retirement system?

The two-pot retirement system will divide new retirement fund contributions into two distinct pots: The savings pot and the retirement pot. After the seeded capital has been deducted and transferred into the savings pot, the existing retirement savings as of 31 August 2024 will go into the vested pot.

Vested Pot: These changes only affect contributions from 1 September 2024. Previous contributions and their growth fall under the vested pot, adhering to pre-1 September 2024 rules. Further contributions to the vested pot are not allowed, except for members of provident or provident preservation funds older than 55 on 1 March 2021 who do not opt in to the two-pot retirement, or in the case of transfers of a vested pot from another fund.

Savings Pot: On 31 August 2024, seeding capital, which is 10% of your existing retirement savings limited to R30 000, will be transferred into the savings pot. From 1 September 2024, one-third of all retirement contributions will go into the savings pot, which may be withdrawn in cash before retirement. Members are entitled to one full withdrawal per tax year from this pot. Refer to question 10 on the tax implications of withdrawals from the savings pot. At retirement, the amount left can be withdrawn as a lump sum or used to purchase an annuity. Withdrawing before retirement will reduce the potential lump sum available at retirement.

Retirement Pot: Once the two-pot retirement system is implemented, new contributions will direct two-thirds to the retirement pot. This portion is locked until retirement, at which point it is compulsory to use the value of the retirement pot to purchase an annuity. This pot also cannot be accessed on resignation.

Example

A member's retirement contribution in September 2024 is R1200 per month, R400 (1/3) will go into the savings pot and R800 (2/3) will go into the retirement pot.
The member will be able to withdraw from the savings pot once a tax year. The minimum withdrawal amount is R2000, and all withdrawals will be taxed at the member's marginal tax rate. However, it is not compulsory for the member to make a withdrawal from the savings pot every tax year and all members are encouraged to continue saving and withdraw only in the event of a financial emergency. Amounts in the savings pot will still be available for withdrawal in future years and would benefit from tax-free growth within the account until a withdrawal is made and taxed in terms of the more favourable retirement lump sum tax table.

4. Who is impacted?

Implementation of the two-pot retirement system is mandatory across all retirement funds and will be incorporated into each of the Nedgroup Investments retirement offerings, which include the Nedgroup Investments Retirement Annuity and Pension- and Provident Preservation Funds. These changes will impact every member associated with these retirement funds starting 1 September 2024, with the exception of members of the Nedgroup Investments Provident Preservation Fund who were aged 55 or above as of 1 March 2021; these members may choose whether to opt-in to the two-pot retirement system.

5. What will happen to my retirement savings on implementation date, 1 September 2024?

On 1 September 2024, a member's account balance will be allocated to designated pots. The vested pot's value will match the member's benefit as of 31 August 2024 after the seeding capital has been deducted. A transfer of 10% taken from the vested pot up to a limit of R30 000 (seeding capital) will go into the savings pot on 1 September 2024. There will be no funds in the retirement pot. One-third of contributions made from 1 September 2024 and the subsequent growth will be allocated to the savings pot. Two-thirds of contributions made from 1 September 2024 and the subsequent growth will be allocated to the retirement pot.

Example

The member has an existing balance of R200 000 in the Nedgroup Investments Balanced Fund on the implementation date.

Account overview on 31 August 2024	
Nedgroup Investments Balanced Fund	R200 000
Pot breakdown on 1 September 2024	
Vested pot – Nedgroup Investments Balanced Fund	R180 000
Savings pot – Nedgroup Investments Balanced Fund* (Account overview on 31 August 2024. 10% seeded from vested pot)	R20 000
Retirement pot	R0

*Seeding will not have an impact on the fund allocation of an account. The value of the vested pot will be reduced, and the value of the savings pot will increase when the seeding capital is transferred.

6. What is 'seeding' and how will it work?

The term 'seeding' denotes the one-time 10% transfer of value from a member's vested pot to a maximum of R30 000, to initiate the savings pot. This process allocates funds into the members' savings pot, enabling clients to withdraw a portion of their funds, if necessary, without the obligation of making any contributions.

All members of the Nedgroup Investments retirement funds will be required to participate in seeding according to the new two-pot retirement system rules. However, members of the Nedgroup Investments Provident Preservation Fund who, being 55 years or older as of 1 March 2021, may decide not to participate in the two-pot retirement system.

Members are not obligated to withdraw the seeded capital from the savings pot right away. They have the option to keep their seeded capital invested and may choose to withdraw it at a future date or maintain it until they retire. It is strongly advised that withdrawals be limited to emergencies only. The savings pot is designed for flexibility, but members are encouraged to continue saving and withdraw the lump sum at retirement or add it to their retirement pot and use the sum to purchase an annuity. Any amount the member withdraws before retirement will reduce the lump sum at retirement and have the adverse effect of being taxed as income at the member's marginal tax rate.

Seeding capital does not carry any tax implications. Tax implications only arise for a member when they withdraw from their savings pot.

Example

Member A

has a R100 000 fund value on 31 August 2024. The seeding amount will be R10 000 (this being 10% of R100 000).

Member B

has a R800 000 fund value on 31 August 2024. The seeding amount will be R30 000 since 10% exceeds the cap of R30 000. Despite R80 000 being 10% of R800 000, this amount is capped at R30 000.

7. How will contributions from 1 September 2024 be invested?

When a retirement annuity member makes additional contributions, two-thirds will be allocated to the retirement pot and one-third to the savings pot. The full amount of this contribution remains tax-deductible up to certain limits, meaning the way retirement fund contributions are treated from a tax point of view will not change.

Example

The member makes an additional contribution of R60 000 to the Nedgroup Investments Opportunity Fund

Before the additional contribution

Account overview	
Nedgroup Investments Balanced Fund	R200 000
Pot breakdown	
Vested pot	R180 000
Savings pot	R20 000
Retirement pot	R0

After the additional contribution

Account overview	
Nedgroup Investments Balanced Fund	R200 000
Nedgroup Investments Opportunity Fund	R60 000
Total	R260 000
Pot breakdown	
Vested pot	R180 000
Savings pot	R40 000
Retirement pot	R40 000

8. How will withdrawals from the savings pot work?

With the introduction of the two-pot retirement system, all eligible retirement fund members will receive an initial transfer into their savings pot on 1 September 2024 and may start withdrawing from their savings pot.

Each member can withdraw from their savings once every tax year (1 March – 28 February), with a minimum of R2 000 per withdrawal, and no maximum withdrawal amount. Those with several retirement fund contracts can withdraw from each account once every tax year. After withdrawing in a tax year, members must wait until the next tax year to withdraw again. However, if members leave the fund and the value is less than R2 000, they will be allowed to withdraw the remaining balance. At retirement, members can withdraw any funds left in their savings pot, regardless of whether they have already made a withdrawal in that tax year.

9. How can I submit withdrawal instructions from my savings pot?

Members will be required to submit the relevant retirement fund withdrawal form. The form will only be accepted when submitted with a completed and signed 'Client Details – Subsequent Instructions Form.' All forms are available on nedgroupinvestments.com or from our Client Services Centre. The withdrawal form will also require members to complete their income tax number and annual income to apply for a tax directive to calculate the tax which will be deducted from the requested amount. The member will only be able to submit withdrawal instructions to instructions@nedgroupinvestments.co.za.

10. How will withdrawals from the savings pot be taxed?

Withdrawals before retirement: If a member makes withdrawals from the savings pot before retirement, these will be subject to tax at the member's marginal tax rate. Members will be required to inform us of their anticipated taxable income for the year when submitting the withdrawal form instruction. After receiving the member's withdrawal request, we will apply for a tax directive by providing the desired withdrawal amount and the member's anticipated taxable income to the South African Revenue Service (SARS). SARS will then determine the tax to withhold from the withdrawal amount and inform us accordingly. The remaining balance after tax will be paid to the member, and the withheld tax will be paid to SARS. These withdrawals will not impact the tax-free lump sum that members are entitled to upon retirement.

Withdrawals at retirement: The tax rules regarding retirement withdrawals of lump sums remain unchanged. Members will be taxed according to the retirement fund lump sum tax table when they withdraw cash from the savings pot at retirement.

11. How will withdrawals from the retirement pot work?

With drawals before retirement: Withdrawals from the retirement pot are prohibited prior to retirement, and this applies even if employment status changes. The total funds in the retirement pot will remain untouched until the member reaches retirement age. The only exception to this rule permitting an early withdrawal is when a member has formally emigrated and is no longer considered a tax resident for three consecutive years or if the member has left South Africa on expiry of a work or visit visa, at which point they may access the full amount from their retirement pot or if the value of their retirement annuity is below R15 000.

Withdrawals at retirement: Withdrawals from the retirement pot upon reaching retirement are prohibited unless subject to the de minimis exception. It is compulsory to use the entire value of the retirement pot to purchase an annuity at the time of retirement. The new two pot de minimis exception rule for the retirement pot will apply where the member will be allowed to submit a full withdrawal of their investment at retirement from the retirement pot where the combined amount in the retirement pot and two-thirds of the vested pot is R165 000 or less. Only then can members withdraw the value as a cash lump sum.

12. Can I make an additional investment into the retirement pot only?

No. Members will be allowed to make additional investments, however, they cannot direct funds to a specific pot only. One-third will always be allocated to the savings pot and two-thirds will always be allocated to the retirement pot. Both pots are invested in the same way.

13. How will withdrawals from the vested pot work?

The rules applicable to a member's existing retirement savings on the implementation date of 1 September 2024 will continue to apply to the vested pot. These rights will also be preserved on transfer to another retirement fund, subject to the rules of the receiving fund.

Retirement Fund	Withdrawals before retirement	Withdrawals at retirement
Nedgroup Investments Retirement Annuity	No pre-retirement withdrawals allowed, unless the total market value across all retirement annuities is R15 000 or less and there are no active debit orders on the account	**Vested benefits**[1] The entire amount can be taken as a cash lump sum when you retire. Vested rights are not lost upon transfer from one fund to another. **Unvested benefits**[2] A max of 1/3 can be taken as a cash lump sum. Remaining 2/3 must be used to purchase an annuity. If the 2/3 value of the unvested benefits and the retirement pot is R165 000 or less, then the member may withdraw the full unvested benefit as a cash lump sum.
Nedgroup Investments Pension and Provident Preservation Fund	One part or full withdrawal subject to transferring fund rules, per preservation fund product. If a part withdrawal is made, the remainder will have to remain until retirement.	
Pension and Provident Funds (Not offered by Nedgroup Investments)	Full or partial withdrawal upon resignation	

[1]All contributions made to Provident and Provident Preservation Funds before 1 March 2021 including past and future growth on these contributions [2]All contributions made to Provident and Provident Preservation Funds after 1 March 2021 including past and future growth on these contributions & all contributions to Retirement Annuities and Pension- and Pension Preservation funds (excluding vested benefits transferred from a Provident or Provident Preservation Fund – Vested benefits are not lost upon transfer)

14. How will members that were 55 years old and older on 1 March 2021 be treated?

Members of Provident and Provident Preservation Funds who were 55 years old and older as of 1 March 2021 will automatically be exempt from the two-pot retirement system if they remain in the same fund. Any contributions made after 1 September 2024 will go into the vested pot.
These members of the Nedgroup Investments Provident Preservation Fund will have the option to opt-in to the two-pot retirement system. Their account will receive an initial seeding capital, determined by a standard seeding calculation.

When members transfer to a different retirement fund, they forfeit the option to stay opted out of the two-pot retirement system and their accrued benefits must be allocated accordingly, with subsequent contributions (if applicable) being divided between their retirement and savings pots.

15. How will the different types of retirement funds differ for new members after the two-pot retirement system implementation on 1 September 2024?

The two-pot system standardises the regulations for all retirement funds, eliminating discrepancies for new members who join after its adoption. Both the savings and retirement pots within Nedgroup Investments Retirement Annuity, Pension- and Provident Preservation Funds will adhere to the same set of rules, regardless of the specific retirement fund chosen by the member.

16. If I withdraw from my savings pot before retirement, will I still be able to access R550 000 tax-free at retirement?

Tax on retirement fund lump sum benefits are accumulative and therefore affect your tax-free portion when you get to retirement. However, savings pot withdrawals are taxed under a different system as it is seen as taxable income. When you withdraw from your savings pot you pay tax at your marginal tax rate. It, therefore, does not form part of the R550 000 tax-free exemption you are entitled to at retirement.

17. What are the changes for members of the Nedgroup Investments Retirement Annuity under the two-pot retirement system reform?

The retirement annuity will be split into three separate pots: the vested pot (holding the retirement annuity fund value of 31 August 2024 less the seeded capital transfer to the savings pot), the savings pot, and the retirement pot. The most significant change under the new system is that you will be allowed one annual early withdrawal from your savings pot. The value in your savings pot will initially be seeded by 10% of your fund value, limited to R30 000,on 31 August 2024,transferred from your vested pot. From 1 September 2024, one-third of your future contributions will also be allocated to this savings pot.

It's crucial to recognise that this new liquidity option from the savings pot carries a significant risk. Withdrawing early can be costly and can notably decrease your retirement income. You would be taking funds from your future self over a set period. The money in your savings pot should be used when you retire and only be accessed before retirement in the event of a financial emergency. It is always best to keep as much money in your retirement savings as possible so that you can give yourself the best opportunity to retire comfortably.

18. How will transfers work?

Inter-fund transfers (between funds)

Should a member choose to make an inter-fund transfer, all components will need to be transferred to the transferee fund (i.e. the member is not able to transfer only one component while leaving the other components behind).

The below inter-fund transfers will be permissible as tax-free transfers (provided that the transfer is a transfer of all relevant components):

- From the transferor fund's "saving component" to the transferee fund's "saving component"
- From the transferor fund's "saving component" to the transferee fund's "retirement component"
- From the transferor fund's "vested component" to the transferee fund's "vested component"
- From the transferor fund's "vested component" to the transferee fund's "retirement component"
- From the transferor fund's "retirement component" to the transferee fund's "retirement component"

Intra-fund transfers (within the same fund)

Transfers can be made at any time:

- From the "savings component" to the "retirement component"
- From the "vested component" to the "retirement component"

19. What happens to funds in the pots when a member dies?

On the death of the member, their beneficiaries will be able to access the benefits in all three pots as either a cash lump sum retirement benefit, a compulsory annuity, or a combination of both.

We are here to support you through this transition, please visit nedgroupinvestments.com to learn more about retirement planning.