

Media Release
Actuarial Society of South Africa
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Prepare for the two-pot system by sourcing and checking your retirement benefit statement

The Retirement Matters Committee of the Actuarial Society of South Africa (ASSA) is encouraging retirement fund members to start preparing for the implementation of the two-pot system on 1 September 2024 by ensuring that they can access their most recent retirement benefit statements.

According to Natasha Huggett-Henchie, consulting actuary and member of the ASSA Retirement Matters Committee, retirement fund members receive regular benefit statements from their employers or product providers, but most don't pay these any attention until they need the money, change jobs or retire.

The next step, she adds, is for retirement fund members to understand how much they have already saved for retirement. "Understanding how much you have already saved towards your retirement is the first step in understanding how much, if anything, you are permitted to withdraw on 1 September 2024."

As of 1 September 2024, 10% of a person's retirement savings (up to R30 000) will be allocated to the savings pot. The amount in the savings pot can be withdrawn at any time as long as the withdrawal is R2 000 or more. If the balance in the savings pot is less than R2 000 no withdrawal is allowed until that savings pot grows to R2 000. This means that your fund credit must be at least R20 000 on 31 August 2024 to have the minimum amount available immediately.

Huggett-Henchie estimates that at least 20% of the country's retirement fund members will not have enough money in their savings pot on 1 September 2024 to make a withdrawal. "Rather than wait for 1 September 2024 and then suffer the disappointment of not having the minimum withdrawal amount of R2 000 in your savings pot, check your retirement benefit statement sooner rather than later," she says.

Managing expectations

The ASSA Retirement Matters Committee surveyed some of the country's biggest retirement fund administrators and found that the average benefit of the 20% of retirement fund members with retirement savings below R20 000 is projected to be around R9 000 on 1 September 2024. Of this R9 000, 10% (or R900) will go into the new savings pot. Since at least R20 000 is required to enable the minimum withdrawal of R2 000, retirement fund members who fall into this 20% category must first build up enough savings before they can access their money.

Huggett-Henchie estimates that it will take the average employee in the 20% category around four to six months from 1 September 2024 to build up a savings pot of R2 000. This means they could only access their savings pot for the first time early in 2025.

According to Huggett-Henchie, the average monthly salary of employees who fall within 20% of retirement fund members who cannot access their savings pot is R9 417. The average net retirement contribution is around 10% monthly (R942). Starting from 1 September 2024, one-third of the monthly retirement fund contributions (R314) will go into their savings pot, where R900 is already waiting, and the rest will be committed to the retirement pot that cannot be accessed until retirement.

Therefore, it will take around four months for these members to have a savings pot fund value above R2 000 ($R900 + R314 \times 4 = R2\ 156$).

“Many retirement fund members hoping to be able to dip into their savings before the start of the holiday season at the end of the year will be left disappointed,” says Huggett-Henchie. “To avoid finding out in September this year that there is not enough money in the accessible savings pot, we urge retirement fund members to obtain their most recent benefit statements and to work out where they will be by September.”

Expect deductions

Huggett-Henchie says it is critically important that retirement fund members are reminded that their savings pot withdrawals are taxed by the South African Revenue Service (SARS) either at their current marginal tax rate or at a higher rate if the withdrawal pushes the applicant into a higher tax bracket. In addition, there will most likely be an administrative fee payable. “You will, therefore, never receive the full amount you applied for,” she explains.

She says retirement fund members must carefully weigh the pros and cons of accessing their savings pot, bearing in mind that it is intended only to provide relief in extreme financial distress. “Accessing your savings pot and using the money for anything other than a serious financial emergency is reckless and costly and comes with serious financial consequences many years later when you need the money for your retirement.”

Huggett-Henchie summarises some of the most important considerations below:

- Check your retirement benefit statement to make sure you have R20 000 or more in benefits before you apply for a withdrawal from your savings pot once the two-pot system kicks in after 1 September 2024. If you have at least R20 000, you will be able to withdraw R2 000.
- The withdrawal is taxable, and an administration fee will likely be deducted. Therefore, you will not receive the full withdrawal from your savings pot.
- You will not be able to make a withdrawal from your savings pot unless you have a tax number.
- Every time you access your savings pot, you not only pay tax on the amount but also reduce the cash lump sum of up to R550 000 that you are allowed to access tax-free on retirement.
- The savings pot, which you will be allowed to access once every tax year after 1 September 2024, is meant to provide relief in cases of extreme financial need. Accessing under any other circumstances is a costly exercise that will also impact the size of your retirement nest egg.

Ends

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