

AUG 2023

Dear valued members

## **MIRF UPDATE ON THE TWO-POT SYSTEM**

National Treasury issued the revised 2023 Draft Revenue Laws Amendment Bill and 2023 Draft Revenue Administration and Pension Laws Amendment Bill for public comment on the 9<sup>th</sup> of June 2023 regarding the much anticipated two-pot system. In this draft bill, the word '**pots**' are amended to the word '**components**'. These draft bills include amendments to the necessary laws to enable the implementation of the first phase of the proposed two-pot system. The proposed effective date is **1 March 2024**.

### **How the Two-Pot System will work:**

- **Retirement Component:** From 1 March 2024, two-thirds (about 67%) of retirement fund contributions will be automatically allocated to a retirement component. These savings, and any investment growth, must be kept invested until retirement, and used to buy a retirement income (must be annuitized/buy a pension) at retirement.
- **Savings Component:** From 1 March 2024 one-third (about 33%) of retirement fund contributions will automatically be allocated to a savings component. These savings, and any investment growth, can be withdrawn once in an assessment year by members, provided the amount is not less than R2 000. They can do this without having to leave their job or retire. There is no limit on the amount a member can withdraw. Members can also keep this invested and withdraw it or use it to buy a retirement income at retirement. Tax at marginal rates applies to any amounts withdrawn from the savings component.
- **Vested Component:** Any amounts saved up to 1 March 2024, and any past or future investment growth, will be automatically allocated to a vested component.
  - Members of occupational retirement funds will still be able to withdraw these savings in cash if they leave their jobs or retire according to rules that apply before 1 March 2024. At retirement, they can take up to one-third as cash, while at least two-thirds must be used to buy an annuity.
  - Tax applies to all cash withdrawals from the vested component.

### **Seed Capital:**

It has been proposed that members will be provided with limited access to their current retirement savings that they have as at 29 February 2024, without resigning from their employer. This is known as **seed capital** and is proposed to be limited to the lesser of 10% of their retirement savings on 29 February 2024 and with a limit of R25 000. This amount will be transferred to the savings component, so that the savings component starts with some savings for members to access. Tax will also apply to this amount if it is withdrawn.

### **Members who were 55 and older on 1 March 2023:**

Provident Fund members who were 55 years or older on 1 March 2021 will have the **option** to participate in the two-pot system. If these members do not participate in the new system, then all their contributions will be allocated to the vested component, and they will then not have a savings component or retirement component.

**Next steps:**

There is an extensive legislative process which still needs to unfold. The revised Revenue Laws Amendment Bill and amendments to the Pension Funds Act have only just been issued. The public will have an opportunity to respond to these updates. It is possible that final legislation will only be available towards the end of 2023. The industry bodies and stakeholders are engaging with National Treasury, FSCA, and SARS throughout the process.

Based on the draft legislation, all stakeholders are preparing for significant changes by the effective date, proposed as **1 March 2024**, which includes administration systems, processes, digital solutions and applications, member experience and communication, advice and guidance to trustees and management committees, advice and guidance to members, as well as legal and regulatory matters, including changes to various legislation including the Pension Funds Act, rule amendments, solutions and services.

You will be kept informed of the developments on the implementation of the two-pots system by the Motor Industry Retirement Funds (MIRF) once the Bill is passed into law by parliament.

Regards,

**Adam Esat**  
**Principal Officer – MIRF**