The truth about two-pot: A balanced approached

Discovery
Corporate and Employee Benefits

The truth about two-pot: A balanced approach to retirement savings

SOUTH AFRICA'S NEW TWO-POT RETIREMENT SYSTEM, WHICH BALANCES SHORT-TERM AND RETIREMENT SAVINGS NEEDS, WENT LIVE ON 1 SEPTEMBER. SOUTH AFRICANS EAGERLY ADOPTED THE SYSTEM, WITH WITHDRAWAL REQUESTS TOTALLING R103 MILLION ON THE FIRST DAY ALONE. HOWEVER, THERE ARE STILL MANY UNTRUTHS CIRCULATING ABOUT THE NEW RETIREMENT SYSTEM.

Under the two-pot retirement system, your retirement contributions from 1 September are split into two pots: one-third will go into your savings component, from which you can withdraw once every tax year, while two-thirds will be kept in a retirement component, which you cannot access until you retire. Your savings accumulated before 31 August 2024 will be kept in a vested component, which you can still withdraw from if you change jobs.

In a country with high income inequality, where less than 10% of the population will be able to support themselves in old age, the two-pot system is a positive step towards balancing short-term financial needs with saving for retirement. However, there's been much confusion and criticism of the system, especially on social media. Let's dispel some of the myths.

Myth #1: The two-pot retirement system is designed to increase taxes.

The truth is that the two-pot system aims to improve retirement saving and preservation – not increase your taxes. Withdrawals from retirement savings are treated as income and taxed at the individual's marginal tax rate. The same rule applies to withdrawals from your savings pot. If you choose not to withdraw and to keep that money invested until you retire, the funds will be taxed according to the retirement tax tables, which are lower than income tax. It doesn't matter how often you withdraw from your savings pot – you will still benefit from the R550,000 tax-free allowance on any lump sums taken at retirement.

It is also not true that you will be 'double taxed' when you withdraw. Your retirement contributions are deducted before your tax is calculated, so funds in your savings pot are taxed for the first – and only – time when you withdraw.

Still trying to figure out the tax implications of two-pot withdrawals? Use our nifty two-pot calculator to see how much tax you'll pay.

Myth #2: The two-pot retirement system doesn't allow people to access their savings if they get retrenched.

If you are retrenched, it's true that the system doesn't allow you to withdraw from your retirement component, which holds two-thirds of your savings. You can only withdraw from your savings component. However, you still have access to your full retirement savings accumulated up to 31 August 2024, which were transferred to a vested component when the system went live.

Myth #3: You can 'replace' the money you have withdrawn from your savings pot.

Your savings pot is not a transactional account – you can't put back what you've taken out. To stay on track with your retirement goals, you can pay more per month into your retirement funds to make up for withdrawals – or you can work longer. Use our two-pot calculator (link) to find out how much more you will need to pay or work to get back on track.

Myth #4: Withdrawing from your savings pot is a once-off.

To kick-start the two-pot retirement system, 10% of your existing retirement savings, up to a maximum of R30,000, has been seeded into your savings pot. You can withdraw this from 1 September. However, withdrawals from your savings pot are not a once-off. Each tax year, you will have access to one-third of what you have contributed to your retirement funds in that tax year.

Myth #5: You can always withdraw from your savings pot without restrictions.

There are limits to withdrawals. Going forward, you will only be able to withdraw what is in your savings pot, which will be one-third of what you have contributed to your retirement savings. You are also limited to one withdrawal every tax year.

Your fund administrator can also restrict withdrawals from your savings pot if a divorce order, maintenance claim or employer debt claim is issued against you, especially if there won't be enough funds to settle the claims after you withdraw.

Before it can pay out, your fund must get a tax directive from SARS about how much tax to withhold. If you owe SARS, they can also claim the debt from your payout. So, although you have a right to the money in your savings pot, you should make sure that your financial affairs are in order.

PRESERVATION IS KING

The two-pot system will go a long way towards making sure that South Africans can support themselves in retirement, while having access to cash for financial emergencies. There are no incentives to withdraw; if you leave your money invested, you will pay less tax and have higher investment returns on your savings without having to contribute more.

Still have questions about two-pot? Read our FAQs (link) for more information.