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Over 55? – Here's what you need to know...

Over 55? Here's what you need to know before opting into the two-pot system

ARE YOU INVESTED IN A PROVIDENT FUND AND WERE YOU AGE 55 OR OLDER ON 1 MARCH 2021? THEN YOU HAVE A BIG DECISION ABOUT WHETHER TO OPT INTO THE TWO-POT RETIREMENT SYSTEM THAT WENT LIVE ON 1 SEPTEMBER OR TO LEAVE YOUR SAVINGS AS THEY ARE.

The two-pot system was introduced to help balance short-term financial needs and long-term retirement goals. It lets you access your funds in a financial emergency, while making sure that the bulk of your retirement savings are preserved. When you retire, you can withdraw your savings component as a lump sum, with the first R550,000 tax-free. Your retirement component must be used to buy an annuity, which will give you a regular income in retirement.

You have until 1 September 2025 to ask your fund administrator to split your savings into two pots or leave things as they are. This decision has important implications, so you must understand the choices.

Opting in
Rolling your provident contributions into the two-pot system lets you access one-third of your accumulated savings before you retire for emergencies. Keep in mind that withdrawals from your savings component reduce the cash lump sum you will have at retirement. The other two-thirds in your retirement component – and two-thirds of all future contributions – will stay invested until you retire. At that point, you will use them to buy a retirement annuity.

Opting out
If you choose to keep your contributions in your existing provident fund, you will be able to take 100% of your savings as a lump sum at retirement. This gives you the flexibility to structure your retirement income as you like. But there's a catch. Opting out means you can't access any of these funds before you retire unless you resign or change jobs.

Don't forget tax
Whether you opt in or opt out, you must know the tax implications of your decision. If you opt in, withdrawals from your savings component will be taxed as income at your marginal tax rate. If you opt out and take a lump sum at retirement, the first R550,000 will be tax-free, but any extra amounts will be subject to retirement lump-sum tax rates.

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Pension funds already behave like two-pot
If you have a pension fund, you don't need to make any choices. Two-pot rules automatically apply to all pension fund contributions, regardless of your age.

What happens if you don't decide?
If you don't ask for a change by 1 September 2025, then your provident fund will remain as is. But if you change jobs or your employer moves your provident fund to another provider, your contributions to the new fund will automatically become part of the two-pot system, so the choice will be made for you.

Get advice
The decision to opt in or out is an important one and depends on your financial situation and retirement goals. Having early access to your retirement savings reduces the benefit of compound growth, meaning you may have to work longer or contribute to make up for the shortfall. It's a good idea to speak to a financial adviser to help you decide.

If you don't have an adviser, you can use Discovery's nifty two-pot calculator to understand the effect of accessing your retirement savings early. Enter your age, gross monthly income, current retirement fund contributions and how much you would like to withdraw. The calculator will estimate the tax you will pay, how much the withdrawal would be worth if you choose not to withdraw, and how much extra you will have to contribute or how much longer you will need to work to reach your retirement goals.