

## TWO-POT RETIREMENT SYSTEM

### What is TWO-POT RETIREMENT SYSTEM?

The **Two-Pot Retirement System** enables members of a retirement fund to access a small portion of their retirement savings before they retire for emergency purposes. The majority of members' retirement savings will remain "preserved," until the member retires. The **Two-Pot Retirement System** is for any South African who has a pension fund, provident fund, retirement annuity, or preservation fund.

The **Two-Pot Retirement System** will divide members' benefits into two separate pots: a savings pot and a retirement pot. This will start from September 1, 2024. For the GEPF, benefits based on one-third of member's pensionable service will be allocated to the savings pot, while the benefits based on the remaining two-thirds of pensionable service will be directed to the retirement pot. Members will have the option to make one taxable withdrawal per year from the savings pot, provided that the balance has reached a minimum threshold of R2,000.

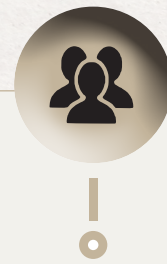


Toll free number: 08 00 117 669  
 Fax: 012 326 2507  
 Email: [enquiries@gepf.co.za](mailto:enquiries@gepf.co.za)  
 Postal address: GEPF Private Bag X63,  
 Pretoria, 0001



### Will the GEPF require rules changes to implement the Two-Pot Retirement System?

**YES.** The rules will need to be amended to accommodate the various new aspects introduced by the Two-Pot system. Some of the changes relate to the introduction of new definitions and others relate to proposed benefit changes.



### What are the benefits to GEPF members when the Two-Pot Retirement System is implemented?

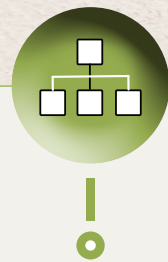
Members will be able to access a small portion of their pension savings before retirement without having to resign from their jobs. This is intended to help members in times of unforeseen financial emergencies. Most importantly, it will also help protect and preserve most members pension savings until retirement.



### Is it advisable to withdraw from the savings pot?

While life can present unforeseen financial emergencies, withdrawing from your savings pot should be considered cautiously. The new retirement fund rules are designed to offer a safety net for financial emergencies when there are no alternatives. Before tapping into your retirement savings in the savings pot, members should consider prioritising other savings. If possible, members should use other non-retirement savings first. Withdrawing from your savings pot can have significant drawbacks. Early withdrawals could mean insufficient funds during retirement and withdrawals are taxed at your marginal rate, potentially leading to a hefty tax bill.

It's essential to emphasize that members are under no obligation to access the funds allocated to the savings pot. The GEPF strongly encourages members to keep their money invested and consider cashing in at the time of retirement for potentially more favourable retirement outcomes. Preserving your retirement savings will lead to better long-term financial security.



### What is the claiming process?

The claiming process for GEPF members will be communicated in due course after rules changes are approved to comply with the new legislation. Once the rules have been finalised, the GEPF will develop processes for members to follow. The GEPF will let members know how to start with their withdrawal and how to provide any supporting documents the GEPF needs from members to process a withdrawal.



### What must members do to prepare for the Two-Pot Retirement System?

Until the two-pot retirement systems changes have been finalised and become law (expected in September 2024), members will not be able to make any decisions yet. For now, GEPF recommends that members regularly check for updates or communication from the GEPF, through newsletters, social media, SMSs, and emailers.



## What was the reasoning for introducing the TWO-POT RETIREMENT SYSTEM?

The South African government has introduced legislation to reform the retirement system, allowing members more flexibility to access their savings without needing to resign or retire early. The **Two-Pot Retirement System** will apply to all pension funds including the Government Employees Pension Fund (GEPF).

## How will the TWO-POT RETIREMENT SYSTEM work for the GEPF?

As from **1 SEPTEMBER 2024**, members will be automatically enrolled into the **Two-Pot Retirement System** as there is no option to opt out. Any benefits that a member earned from the date they joined the GEPF until 31 August 2024 will be allocated to the “vested pot”. Pension savings up to that date will also be ringfenced into the “vested pot”, and the existing GEPF rules will continue to apply. The new system is only applicable to active members. A transfer of 10% of the earned benefits, capped at R30 000, will be allowed from a vested pot as “seed capital” into the “savings pot”. However, it is worth noting that the 10% applies where a member has less than R300 000 in their vested pot, but if a member has more than R300 000, a maximum of R30 000 can be transferred into the savings pot. The “seed capital” will be immediately accessible to members as of 1 September 2024 from the savings pot.

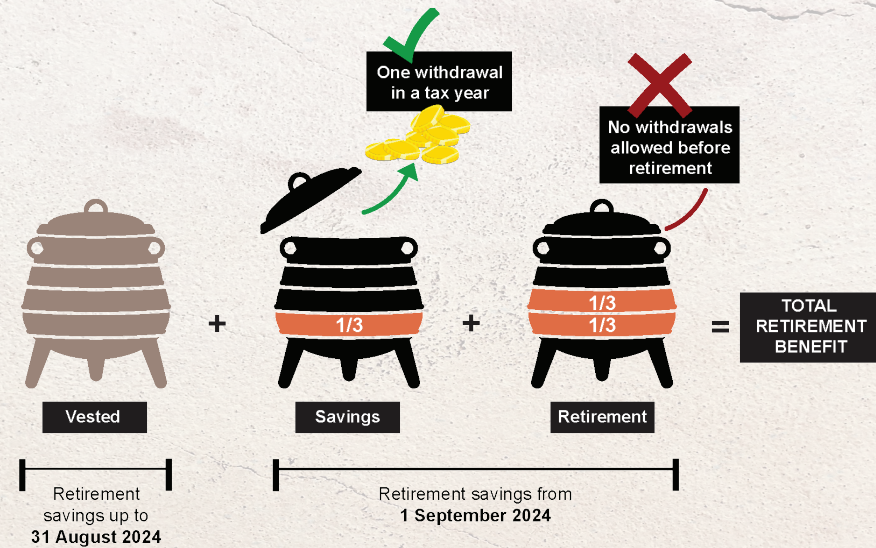
From 1 September 2024, the benefits that members will earn, will be divided into two pots:

- 1** a **savings pot** where the benefits based on one-third of pensionable service will be allocated, and which will be accessible before retirement if required. There will be a once-off automatic transfer of the seed capital from the “vested pot” to the “savings pot” as an opening value.
- 2** a **retirement pot** where the benefits are based on two-thirds of pensionable service will be allocated for funding members regular pension in retirement. This pot will be preserved until the retirement date. Accessible upon death, ill-health and retrenchment.

From 1 September 2024, for every year of future pensionable service, 4 months will be allocated to the savings pot and 8 months will be allocated to the retirement pot. GEPF members will have their pensionable service divided into three distinct records.

First, there's the Vested Service Period for members who joined before 1 September 2024, marking their service up to 31 August 2024. Secondly, the Savings Service Period accounts for one-third of service from 1 September 2024. Lastly, the Retirement Service Period covers the remaining two-thirds of pensionable service from 1 September 2024. The balance in each pot will be the actuarial interest determined from the respective service period allocated to each pot.

## What is the difference between the three pots?



The **vested pot** balances will be payable on all forms of exit and will be based on a fixed pensionable service. The balance in this pot will however not be fixed as it will change with changes in the salaries and actuarial factors. It's important to note that the calculation of these savings will adhere to the existing GEPF Rules.

The **savings pot** will be accessible on all forms of exit. In addition, members will be able to make one withdrawal from this pot once in a tax year, subject to the pot having a minimum balance of R2 000. Such a savings withdrawal benefit will be added to your taxable income and will be taxed at the member's marginal tax rate. It is crucial to understand that any savings withdrawal benefits will result in a reduction of pensionable service.

The **retirement pot** is focused on long-term security and is meant to have restricted access. This pot can only be accessed on death or at retirement. **No withdrawals will be allowed before retirement.** The retirement pot balances will be used to purchase a regular pension in retirement. However, if the balance of the retirement pot is R165 000 or less, then a full cash withdrawal is possible. If a member emigrates, they will not be able to access the money from the retirement pot for three years. Payouts from this pot will be taxed at the retirement tax table rate.

## Things for GEPF members to be aware of:



- The benefits that members accrue in the different pots will be determined based on the pensionable service periods.
- The transfers between the different pots are not taxable.
- Withdrawals on exits from the Fund will be taxed at retirement tax table. Savings withdrawal benefits from the savings pot will be taxed at a member's marginal tax rate.
- The current provisions related to the payments of benefits to beneficiaries of deceased members will apply to payments from the retirement pot (i.e., the beneficiary will continue to receive an annuity).
- If a member divorces, a withdrawal will be made from all the three pots.
- When a member withdraws from the savings pot, there will be a reduction in years of pensionable service **EXAMPLE**



**15 years**  
vested service



**4 months**  
savings service



**8 months**  
retirement service

**= 16 years** of total pensionable service

**A member** has 15 years vested service, 4 months savings service and 8 months retirement service. Such a member has 16 years of total pensionable service. Assuming that they have an actuarial interest of R873 000 and that they withdraw an amount of R18 150 from the savings pot. Such a member would lose 4 months of service from the savings pot. Hence after the withdrawal, the member would still have 15 years of vested service, no savings service and retirement service of 8 months. Such a member would now have actuarial interest of R854 850 and the total pensionable service would reduce to 15 years 8 months. The withdrawal has led to them losing 4 months of pensionable service. This will lead to them receiving a lower benefit in retirement than if they did not withdraw.

- Going forward, members will have three different pensionable service records relating to the pensionable service allocated to each pot.
- From 1 September 2024, members will only be able to access the vested pot and savings pot as a lumpsum on resignations. Members will not be able to access the retirement pot on resignation. Instead, members will be required to preserve the pot within the GEPF and receive a deferred pension in retirement or to transfer it to another retirement pot of an approved retirement fund.