Access Granted 2 Months of Two-Pots

Melissa Reddy
Senior Investment Specialist
Sanlam Corporate

Matimu Ngobeni
Actuarial Specialist
Sanlam Corporate

The first two months of the two-pot system has seen more members engaging with their retirement savings, than ever before. Our call center alone received more than 176 000 calls.

Members are faced with the tough choice between meeting their now emergencies vs. future needs.

At Sanlam we specifically refer to the two new components as the "retirement pot" and critically the "emergency savings pot" with the intention of cementing the idea that withdrawals from this pot should only be for emergencies.

By the end of October 2024, Sanlam received over 126 000 emergency savings pot claims totaling R2.2 billion. For context, prior to 1 September, Sanlam normally processes between 7000 - 8000 retirement claims a month. While the first week of September 2024 saw an unprecedented 30 000 claims, subsequent weeks have seen a gradual decline to less than 5000. It remains to been seen how claims over the next year will change, but we anticipate an increase in the run-up to and post festive season as members seek to meet their festive expenses.

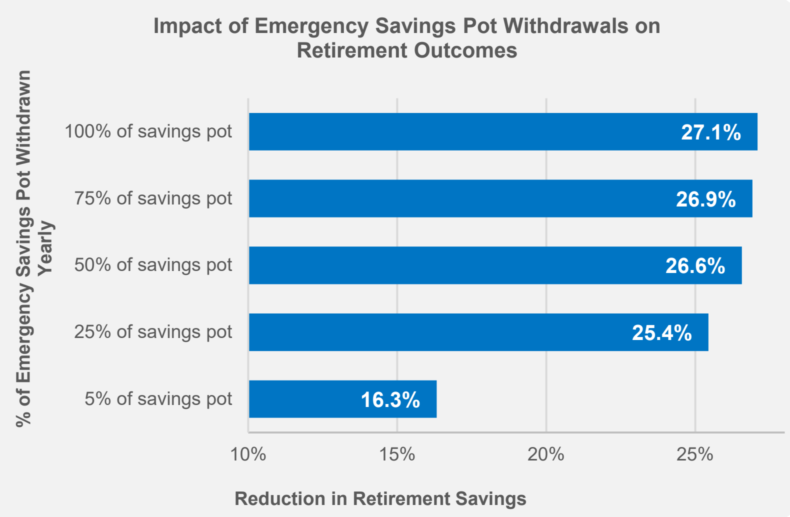
A silver lining for our admin team has been the increase in digital adoption, with all claims being submitted digitally and 98% actually completed digitally. Digital adoption is a big win, but it raised a concern around cybersecurity. One of the ways Sanlam has sort to mitigate this, is by only paying into the bank account the claimant's salary is paid into.

The members earning between R3 000 and R25 000 a month, are our leading claimants. Within that salary band, 35 to 44 years is the age band with the most claimants. Initial feedback suggests that most members intend to use their emergency savings pot withdrawal for house and vehicle expenses, education and to settle short-term debt.

Implications of the two-pot system on retirement outcomes

The two-pot system offers retirement fund members a balance between immediate access to savings in times of need and preserving funds for retirement. While members can access the savings component without resigning, each withdrawal reduces the retirement income available and incurs taxes – this can potentially increase a member's tax bracket. The money you withdraw today not only diminishes your retirement fund but also sacrifices the potential for growth through compound interest resulting in reduced retirement outcome. When left untouched, retirement savings can accumulate significantly over time, providing a much larger nest egg for your future.

Consider a 30-year-old member who earns a pensionable salary of R30,000 per month and has accumulated R300 000 in their retirement fund on the two-pot implementation date. This member's salary increases by 3.0% per year after inflation. The member makes a net contribution of 10.0% of pensionable salary to a pension fund. On 1 September 2024, their emergency savings pot is seeded with R30,000 and all future contributions are split 1/3 to the emergency savings pot and 2/3 to the retirement pot.



The chart shows the reduction in the member's retirement savings that would occur, as the percentage withdrawn yearly from the emergency savings pot increases.
Withdrawing 5% of the savings pot each year results in a 16.3% reduction, while withdrawing 100% results in a 27.1% reduction. Keeping annual withdrawals low or avoiding making regular withdrawals will preserve more retirement savings, reducing the impact on the total retirement fund by a smaller percentage compared to higher withdrawals.

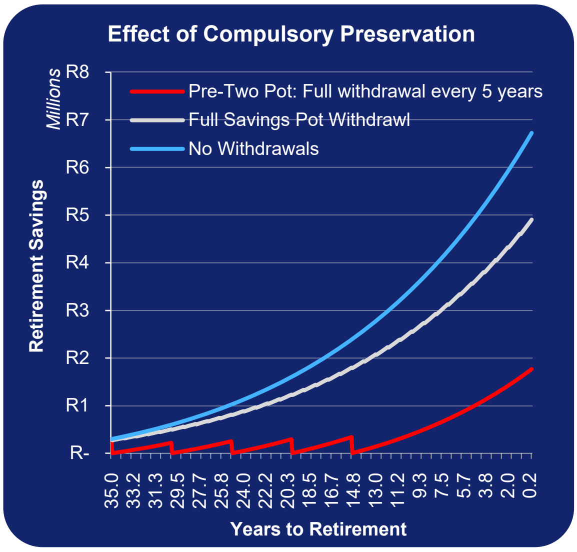
Purpose of the two-pot system

Compulsory preservation of the retirement pot is expected to improve long-term retirement outcomes, especially for younger members post-implementation. With at least two-thirds of future contributions and investment returns preserved until retirement, members will have more funds available to purchase a pension. In contrast with the previous system, where members could withdraw a large portion of their retirement savings when changing jobs.

Expanding the example, the red line shows the impact on retirement savings when the member withdraws all their retirement savings every 5 years when changing jobs, until 15 years before retirement where they are focused on retirement. This demonstrates how unrestricted withdrawals prior to 1 September 2024 had the potential of significantly reducing retirement savings.

The blue line represents a scenario where the member does not make any withdrawals before retirement, resulting in the highest retirement outcome.

The grey line shows what would happen if the member withdraws their entire emergency savings pot every year. The preservation requirement (for the retirement pot) helps limit the impact on long-term savings, leading to a better outcome than the previous system with unrestricted withdrawals upon switching jobs.



And the biggest winner…

By October 11, 2024, the South African Revenue Service (SARS) reported receiving over 1.2 million applications for tax directives related to the Savings Withdrawal Benefit under the two-pot system, with over 1.1 million applications approved, resulting in a total gross payout of R21.4 billion.

At the close of 31 October 2024, Sanlam had submitted more than 119 000 two-pot tax requests to SARS, 98% were successfully returned, despite initial concerns that SARS would not be ready to process the volumes of requests.

Given the quantum of two-pot withdrawals in the first 2 months, SARS has certainly seen an increase in tax revenue. Since 1 September 2024, Retirements Funds at Sanlam Corporate have paid SARS more than R519m in two-pot claim taxes and the dreaded IT88.

Emergency savings pot withdrawals are considered part of taxable income for that tax year and is taxed according to your marginal tax rate, as determined by the personal income tax table. The higher your income, the higher your marginal tax rate, which means that the value of your withdrawal could push you into a higher marginal tax bracket, resulting in a higher tax bill in that tax year.

Unfortunately, more than 9 200 members were issued with IT88s. Of the 9 200 members 1 600 had SARS claim the full emergency saving pot withdrawal for outstanding taxes, on average R17 000. This highlights the need for members to understand their tax status before claiming to avoid surprises.

What's an IT88?

An **IT88** is a deduction order issued by SARS, which allows SARS to electronically collect outstanding penalties.

Five things to consider before making an emergency savings pot withdrawal:

Given the above, we urge members to consider the following before making an emergency savings pot withdrawal.

1. Is this an emergency?
2. Can future you afford to make an emergency savings pot withdrawal now? Could you possibly increase your contributions in the future to make up for this loss in retirement savings?
3. Are you registered with SARS and what is your tax status? That is, do you have any outstanding penalties?
4. How much tax will you pay on your withdrawal and will your claim impact your marginal tax rate for the year? We recommend using the ***SARS Two-Pot Retirement System Calculator*** to get an indication of the tax that will be deducted from your withdrawal.
5. What fees come along with an emergency savings pot withdrawal? Along with the tax applicable, an administration fee is charged to cover the expenses associated with a withdrawal. If you require a specific amount, you should consider the impact of fees on your withdrawal.

We are supportive of the two-pot system and believe it will result in better retirement outcomes for members over the long-term, increasing the possibility of securing the required level of income in retirement.