

# There's more to two-pot than just withdrawing. Make sure you get financial advice, says Old Mutual

John Manyike, head of financial education at Old Mutual, says the importance of ensuring that people seek financial advice from an accredited financial adviser cannot be stated enough to ensure that they make informed decisions when it comes to taking advantage of the opportunity presented by the two-pot retirement system.



Source: [Pixabay](#)

The two-pot retirement system will allow members to access a portion of their pension savings before retirement, without resigning.

Manyike noted from 1 September, all existing pension-fund savings will be allocated to a “vested component” and the new rules will not apply to these savings. Future pension-fund savings will then be divided into two parts, with one-third allocated to a “savings pot” and two-thirds to a “retirement pot”.

“As of September 2024, there will be a once off allocation from the vested component to the savings pot of 10% capped at R30,000, as an opening balance. The savings pot is designed to be a lump sum at retirement. However, people will be able to make a withdrawal once in a tax year, as an emergency withdrawal before retirement. The retirement pot is where the savings that will only be available at retirement will be kept.

“The advantage of the two-pot system is that it may provide people with some relief to meet their unexpected financial needs

or emergencies," says Manyike.

However, warns Manyike, the attraction of immediate financial relief must be balanced against the potential long-term risks.

"Tapping into retirement savings prematurely may lead to individuals struggling to keep up with their current standards of living at retirement, with potentially negative repercussions on their overall financial wellbeing during retirement," Manyike says.

## Financial literacy and taxation

Manyike adds that people need to understand the difference between emergency savings and retirement savings. While the two-pot system aims to help towards unexpected financial pressures, it is crucial for individuals to understand that retirement savings are designed only for one purpose - retirement and nothing else. People therefore must ensure that they work on building their own emergency savings, and not rely on the two-pot system for this purpose.

There's also an issue of tax. While savings remain tax-deductible and tax-free while growing in the fund, it's crucial for people to understand the implications of withdrawing from their savings before retirement.



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"Before exercising the right to withdraw from pension monies, people must ensure they seek financial advice," advises Manyike.

"There are tax implications that will impact both the money withdrawn and the money left in the fund for retirement. Just because the opportunity to access funds exists, people must be cautious because there are opportunity costs involved."

## Tax implications and withdrawal guidance

Under the two-pot system, withdrawals from the savings component before retirement will be taxed at marginal rates, like other forms of income. It's essential to note that only one withdrawal from the savings component is permitted per tax year, with a minimum withdrawal amount of R2,000.

"Understanding these differences might be hard for some, which is why it's crucial for people to get financial advice," adds Manyike.

Manyike concludes that it's important for people to understand that just because they can withdraw money from their pension savings, they don't necessarily have to.

He, instead, suggests that people consider preserving their pension savings for as long as possible and aim to preserve the funds for retirement.

"Pension savings are designed to grow at compound rates, meaning that at retirement people will end up with a lot more pension savings if they opt for preservation rather than withdrawals," concludes Manyike.