

## Hold your members by the hand

[Retirement funds may be excused for finding life complicated.](#) Two pots coming. So much to do, to fix, to test and to launch. So little time to get it all right. The complexity is extraordinary. Let's not forget the ultimate beneficiaries. [If two-pot \(three-pot or four-pot\) is complex for the experts, how much harder is it for the members, who desperately need clear guidance?](#)

JULY 2024

I feel for our policymakers. Retirement system design is not for the faint-hearted. It is impossible to please everyone, so tough choices must be made. A complex mix of objectives have to be navigated, frequently involving trade-offs and unintended consequences. Perhaps the biggest difficulty is that a change once implemented is permanent.

### A little potty

The introduction of the two-pot system follows hard on the heels of two significant other industry upheavals.

First, mandatory annuitisation for provident fund members was introduced, second time around, after the cliff-hanger December reversal. The freedom to take all provident fund savings as cash at retirement was suspended. All contributions from 1 March 2021 are treated the same as pension fund contributions. This means that only one-third of the accumulation from these contributions may be taken as a lump sum.

Only, this doesn't apply to older provident fund members or to contributions made before that date. And it doesn't apply if the accumulation at retirement is below a stated threshold. What does this mean in practice? For several years, provident fund members won't notice any difference. But administrators must track the values in these accounts. Several years from now, they must explain the restrictions to retiring members of these funds. Better they do so now.

Second, all retirement funds had to establish default positions covering investments, annuitisation and the twins of preservation and portability. These positions would have been explained to members, carefully one hopes.

And then there is the two-pot system, well actually, three pots, since all vested interests at the end of August 2024 are retained and subject to existing requirements. The savings pot and the retirement pot concern only future contributions. The accumulation of past contributions is subject to the rules in place at the time.

Since provident fund members already have two regimes that apply to their contributions, their savings in a few years will fall into four pots, or even five, depending how they are counted. Only, some might suggest, one or two of these pots will be so small that they hardly matter.

Let's get one thing straight. For the members, everything matters. Many of them are scraping by, scarily in debt, trying

to fit their money into their month. They can't get ends to talk to one another, let alone meet. Everything matters.

### A deal has been made

Philosophically, the two-pot system may represent an acknowledgement that tax incentives have not proved effective at motivating South Africans to save for retirement and stay the course. Some might say that two-pot shows that tax incentives have simply failed.

In the face of increasing anecdotal evidence of desperate behaviour, policymakers have cut a deal with the people of the country, the formally employed that is. South Africans, access to a part of your saving is granted in return for a lock on the rest. All things considered, and acknowledging the failure of its predecessor, it's a brave decision.

But it does introduce additional complexity to an already tricky system. We must make sure that retirement fund members understand it. A pension fund member with, say, fifteen years to retirement will soon have three pots:

- one that they may draw down any time, subject to administrative constraints, currently empty but soon to be seeded,
- one that they may not touch until they retire, though they may transfer it, currently also empty, and
- one that is withdrawable or transferable on resignation, but that must be split at retirement, since only part of it may be taken as a lump sum.

For provident fund members, this final pot is divided into two parts. The first part of this is fully accessible on resignation or retirement and the balance is (usually) split at retirement between a lump sum and an annuity.

### Clarity critical

Trustees and fund administrators, it is obviously crucial that operational processes are flawless. Members have several accounts in a single fund. For those who are members of many funds, the situation is only more complex.

We must make every effort to communicate with them concerning the values in these accounts and the constraints that each account operates under. More than that, however, we must ensure that our members understand it, that they have channels to ask questions to confirm this understanding and that they are able to act effectively on it.

[South Africa is on the brink of launching an innovative approach to retirement funding.](#) This will be complex, forcing trustees and administrators to take care over detail. But it cannot work well unless members have a clear understanding of their interest in the fund and the constraints that each part is subject to. [Clear communication is critical.](#)

Rob Rusconi