Two-pot FAQs: Changing jobs

What to do with your retirement savings when you change jobs

MOST PEOPLE SWITCH JOBS THREE TO SEVEN TIMES IN THEIR CAREER. BEFORE THE NEW TWO-POT RETIREMENT SYSTEM WENT LIVE ON 1 SEPTEMBER, YOU COULD WITHDRAW ALL YOUR RETIREMENT SAVINGS EACH TIME YOU RESIGNED OR WERE RETRENCHED.

From now on, you can only withdraw from the savings component of your retirement savings, which makes up one-third of your contributions to a pension or provident fund. The remaining two thirds, your retirement component, must be preserved until retirement or transferred to another fund. You can also withdraw from your vested component, which is all your savings before the system went live.

The two-pot system was introduced to help people balance short-term financial needs and long-term retirement goals. The system 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 the savings component as a cash lump sum, with the first R550,000 being tax free. The retirement component must be used to buy an annuity, which will give you a regular income in retirement.

What are your options when you resign?

- Withdraw from your savings component: You can withdraw the full value of your savings component if it's more than R2,000 and you have not withdrawn in the current tax year. This withdrawal will be treated as income and taxed at your marginal tax rate. Remember, every withdrawal you make reduces your R550,000 tax-free benefit at retirement.

- Stay invested in your former employer's fund: If the fund rules allow, you can leave your full retirement savings (savings and retirement components) invested in your former employer's fund as a paid-up member. This will keep your investment at its full value.

- Transfer to a new fund: You can transfer the full value of your savings to your new employer’s fund or a preservation fund of your choice. This transfer is tax-free and will mean your retirement savings will keep growing.

- Withdraw from your vested component: You can withdraw from your vested component. This will be treated as income and taxed at your marginal tax rate. It will also reduce your R550,000 tax-free benefit at retirement.

Get advice

Withdrawing from your retirement savings early reduces the benefit of compound growth. This means you will have to work longer or contribute more to make up for the shortfall. Because of this, it’s a good idea to speak to a financial adviser before deciding what to do with retirement savings when you resign.

If you don’t have an adviser, you can use Discovery’s nifty two-pot calculator to help you decide. All you need to do is 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 have to work to reach your retirement goals.