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FOR PSA MEMBERS: **PUBLIC SERVICE COORDINATING BARGAINING COUNCIL (PSCBC)**

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Pension reforms: Limited withdrawals from retirement funds

Members will recall that the Minister of Finance previously announced that legislation was being amended to allow members of private pension funds to withdraw a portion of their benefits for the purpose of mitigating the impact of the COVID-19 pandemic.

The PSA issued an *Informus* in 2022 and subsequently indicated that Treasury was not yet ready to issue a draft Bill regarding this contentious issue. The much-awaited *2023 Draft Revenue Laws Amendment Bill* and the *Draft Revenue Administration and Pension Laws Amendment Bill* were published on 9 June 2023 and are open for public comment.

It must, however, be noted that the Government Employees Pension Fund (GEPF) is governed by the *GEPF Law* and for any such proposed amendments to be accepted the *GEP Law* must be amended through a process of negotiation at the level of the PSCBC as it does not allow for early access to funds at this stage.

These *Bills* provide for the required legislative amendments to implement the first phase of the two-pot retirement system. These *Bills* also consider the public comments that were received on the *2022 Draft Revenue Laws Amendment Bill*, which was published on 29 July 2022.

Government identified two primary concerns with the design of the two-pot system. The first is the lack of preservation pre-retirement and the second concern was that some households in financial distress have assets in their retirement funds that are not accessible in case of emergencies of financial hardship. Government, in trying to address these two concerns, proposed a reform to the retirement-savings regime, which will consist of a two-pot system to address the outcry by individuals. This new regime proposes the creation of three components within retirement funds, as well as the introduction of the definition of “a savings component”, “retirement component”, and “vested component”.

All pension funds on or after 1 March 2024 will be required to create a component known as a savings component, which will be housed within the currently available retirement fund. Members will therefore be required to contribute one third of the total individual retirement fund contributions to the savings

component (pot). This one third of the individual retirement assets in the savings component will be available for withdrawal before retirement. A member will be allowed to make a single withdrawal within a year of assessment. Withdrawals from the savings component will be added to the individual's taxable income and will be taxed at their marginal rate.

This is, in short, what the savings component (pot) entails. However, as indicated above for public servants to enjoy the same benefits, the *GEP Law* must be amended to accommodate these amendments. A PSBC workshop was held in an effort to clarify the proposed *Bills*. During the workshop it became clear that all public servants need to attend a similar workshop. It was discovered that many employees who faced serious financial problems resorted to resigning from their employment to access their retirement savings to ease their financial woes. The intention of the changes to the Pension Fund is that employees do not have to resign to access monies from the Pension Fund to assist them financially. As indicated above, employees will now be able to contribute one third of their contributions to a "savings pot" and will **only be able to withdraw from this savings pot and not the entire pension fund** should they require monies to assist them financially. It must also be noted that withdrawals from the "savings pot" are limited and are also subject to tax.

The negotiation process on the amendment of the *GEP Law* and rules will be done at the level of the PSCBC, and members will be consulted for inputs or mandates.

Members will be informed of developments.

GENERAL MANAGER