

09 March 2022

Dear Member

## **PRASA PROVIDENT FUND EARLY WITHDRAWAL OF RETIREMENT SAVINGS QUERY**

The PRASA Provident Fund would like to clarify its position on the subject matter relating to the early withdrawal of retirement savings. Over the recent months, the Fund has received enquiries that sparked members' interest to activate such withdrawals from retirement savings.

These enquiries follow the Minister of Finance announced in his November 2021 MTBPS speech that boosts household savings by increasing preservation before retirement and flexibility through partial access to retirement funds through a "two-pot" system. This proposed system refers to one pot to be preserved until retirement (*two-thirds*), while the other would enable pre-retirement access (*one-third*).

National Treasury published two papers on proposed further retirement reforms for public comment. Consultations are proceeding following the release of a discussion paper last year. The draft legislation on these amendments will be published for analysis in the middle of the year. It is important to note that there are no precise turnaround times provided for this, except the commitments made by the Minister.


For this reason, the industry, including the PRASA Provident Fund, is encouraged to await the final outcome of the research by Treasury which will grant further clarity and legislation process for access to funds.

**Members will be eligible to apply for a portion of these funds only after the legislation is approved by Parliament and signed off by the President.**

**No retirement fund can give early access to retirement savings at this stage.**

I trust you will find the above in order.

Yours faithfully

  
Jan Seaba  
Principal Officer

### **DETAILED FRAMEWORK INFORMATION:**

The published media statement by National Treasury clearly articulates the following:

The first of these papers was entitled '**Encouraging South African households to save more for retirement**'.

In this regard, the Government indicated that it was sympathetic to the difficulty many South Africans were facing due to the Covid-19 pandemic and engaged with the regulators and other key stakeholders to work out relief measures for consumers. As a result, efforts on retirement funds contribution suspension and holiday and expansion of access to living annuities were enabled to ease the plight of some members.

The Government has acknowledged that even though retirement savings should preferably only be used for their intended reason, namely retirement provision, the Government recognised that there might be a need to allow some access to accumulated retirement savings before retirement. For this reason, the

National Treasury noted, in the Budget 2021 financial sector updates, *the consideration to allow limited pre-retirement withdrawals from retirement funds under certain conditions* if this was accompanied by mandatory preservation.

Treasury states that the proposal currently being considered through the paper released for public consultation (i.e. '**Encouraging South African households to save more for retirement**') is introducing a **two-pot system**, which will enable the restructuring of retirement contributions into two pots.

- One pot is to be preserved until retirement (two-thirds), while the
- Other would enable pre-retirement access (one-third).

Government is of the view that preservation of contributions must accompany such restructuring to ensure sufficient retirement provision and avoid old-age poverty and reliance on the state. Such restructuring will entail protecting vested rights on accumulated retirement savings before the new two-pot structure takes effect. The proposed restructuring of retirement savings into an accessible pot and a retirement pot will address the situation most fund members find themselves in because they do not have any alternative form of short-term savings. Furthermore, this has been exacerbated by the Covid-19 pandemic, resulting in some workers experiencing loss or reduced incomes.

Comments to these papers were requested to be submitted by 31 January 2022.

Following the above, in the recent budget speech, the current Minister of Finance, Mr Enoch Godongwana, provided the following update:

- Retirement Funds play a critical role in channeling savings into productive investments. Regulation 28 of the Pension Funds Act sets out the criteria through which Funds may make investments.
- Changes have been proposed to these regulations to enable more significant investment in infrastructure by these Funds. After consultation on these changes, the amendments will be gazette next month.
- The Government has also proposed a fundamental restructuring of the retirement system for individuals to allow more remarkable preservation and partial access to funds through a "two-pot" system.
- Part of this proposal includes the possibility of short-term access, which would depend on the Trustees' approval of each Fund.
- Consultations are proceeding following the release of a discussion paper last year, and the draft legislation on these amendments will be published for comment in the middle of the year.

For this reason, the industry is encouraged to await the final outcome of the research by the Treasury, after which clarity will be provided, and possible access to funds will need to be legislated.

Members will be able to apply for a portion of these funds *only after the legislation has been approved by Parliament and signed off by the President*. There are no precise turnaround times provided for this, except the commitments made by the Minister.

*No retirement fund is allowed to give early access to retirement savings at this stage.*