



The cost of making withdrawals from your Savings Pot

The funds in your savings pot should only be accessed in a **financial emergency** as this is a costly way of getting money. Any withdrawals you make from your retirement savings in your savings pot will mean less money for your retirement and will put your future financial security at risk. Please read on to understand the tax implications, investment returns and other costs associated with making withdrawals from your savings pot.

Withdrawals result in investment returns and compound interest losses

Withdrawing from your savings pot will have a compounding impact over time. You will lose out on the investment returns and compound interest on any retirement savings you withdraw. Over time, this all adds up and will impact the amount available to you at retirement.



EXAMPLE:

Julia and Cynthia are 40 years old and are members of the Fund. They both contribute R1 000 per month towards their savings pots (1/3rd of their monthly Fund contributions). Julia decides to take advantage of the new two-pot legislation and withdraws 10% of the balance of her savings pot every year. Cynthia doesn't make any withdrawals and simply allows it to grow.

After 20 years, even if we don't allow for any investment return, Cynthia's savings pot will be approximately R144 000 more than Julia's. If you take compounded investment returns into account, this amount will be as much as 3 to 4 times higher! By making regular withdrawals from her savings pot, Julia uses a large part of her retirement benefit and loses out on the investment returns that could have been earned had it stayed invested.

Savings pot withdrawals are taxed by SARS at your higher marginal tax rate

In most cases, this tax rate is significantly higher than the tax rate applied to retirement fund withdrawals and is deducted before your withdrawal amount is paid to you. So, you will get less than you requested.



EXAMPLE:

*James resigns from his job and withdraws his total Fund Credit of R50 000. Under the current withdrawal table, James pays 18% tax of **R4 050** (this is because the first R27 500 is tax-free, and the balance is taxed at 18%).*

*If James (at an annual salary of R300 000) withdraws R50 000 from his savings pot, he will pay 26% tax, amounting to **R13 000**.*

This is because the R50 000 withdrawal from his savings pot gets added to his taxable salary. His new taxable salary is R300 000 + R50 000 = R350 000, and the marginal tax rate for this income band is 26%.

The significant differences in the two tax rates over an employee's working life are even more evident in the example below.

EXAMPLE:

Janet is 20 and joins her first retirement fund after 1 September 2024. Her annual salary is R250 000.

*If she withdraws all the funds available in her savings pot each year throughout her working life, she will have paid over **70% more tax** under the marginal tax rate compared to the tax rate applicable to early fund withdrawal. If you were to accumulate this difference (with interest) until her retirement age at 60, it would amount to more than R1 million.*



Withdrawals could push you into a higher tax bracket

The amount that you withdraw from your savings pot will be added to your annual taxable income. This could push you into a higher tax bracket depending on your income and the amount you withdraw.

EXAMPLE:

Kgomotso earns R7 900 per month. His annual taxable income of R94 800 is just under the government's R95 750 tax threshold, which means he doesn't have to pay tax or PAYE. He withdraws R5 000 from his savings pot in September. This pushes his taxable income to R99 800 ($R94\,800 + R5\,000$) and he is now no longer under the tax threshold. He is liable for 18% tax on the difference of R4 050, which comes to R729 if SARS did not tax his withdrawal from the savings pot. When he files his tax return in July the following year, he will owe SARS R729.



SARS will recover any outstanding taxes from your savings withdrawal

If you owe SARS money for prior taxes, a deduction order (IT88) in addition to the tax directive will be issued and deducted from your gross withdrawal amount. The balance, if any, will then be paid to you.

Savings withdrawals are not paid immediately

It will take about 6 to 8 weeks from the date the Fund receives your request for you to be paid. Savings withdrawal requests can only be submitted from 24 September when the seeding process is complete.

Make up for withdrawals by making AVCs

If you have no option but to make a withdrawal from your savings pot, consider making AVCs when you can, to boost your retirement savings. Any additional savings will help to reduce the impact of withdrawals on your retirement benefit. Read more about AVCs [here](#).

PLEASE NOTE:

The examples set out in this document are based on a number of assumptions which may not be borne out in practice and / or which may not be representative of your personal circumstances. They are provided for illustrative purposes only. The contents of this document should not be construed as financial advice. You are encouraged to obtain independent financial advice from a licensed and accredited financial advisor, if necessary, as part of your holistic financial planning on providing for your retirement.

