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Fund Administrators (Pty) Ltd

Quality Managed Retirement Fund
Administration Services

THE TWO-POT SYSTEM

IN DETAIL

WHY

1. Addressing the need for access to funds in event of financial distress
2. Preserving retirement savings to create better outcomes at retirement

WHAT IS THE TWO-POT SYSTEM

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- With effect from 1 September 2024 the Two Pot System will come into effect to allow members one withdrawal per tax year from the fund they belong to; and
- To protect future retirement benefits to create better outcomes for members when they retire
- From 1 September 2024 a member's retirement account (share of fund) will be split up into 3 pots
- There will be no change to benefit rights up until 31 August 2024
- The Two Pot System will only affect future contributions and benefits from 1 September 2024 onwards.
- These changes affect all funds, including public sector funds

In legislation the "Pots" are called "Components", but to easier explain we will use the term "Pots"

THE POTS

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01

VESTED POT

- This will be the pre 1 September 2024 balance of a member's share of fund (**fund credit**) per fund, less the amount transferred as seed capital to the member's Savings Pot
- No further contributions will be allowed into this pot

02

SAVINGS POT

- Seed capital, plus
- After 1 September 2024 each member will contribute 1/3rd of their contributions to their Savings Pot
- **The value in this pot is intended to be the lump sum at retirement**

03

RETIREMENT POT

- After 1 September 2024 each member will contribute 2/3rd of their contributions to their Retirement Pot
- The value in this pot is intended to purchase an annuity at retirement

Contributions allocated after 1 September 2024 will be split between the Savings Pot and Retirement Pot. This will exclude arrear contributions that relates to pre 1 September 2024 which will be allocated to the Vested Pot

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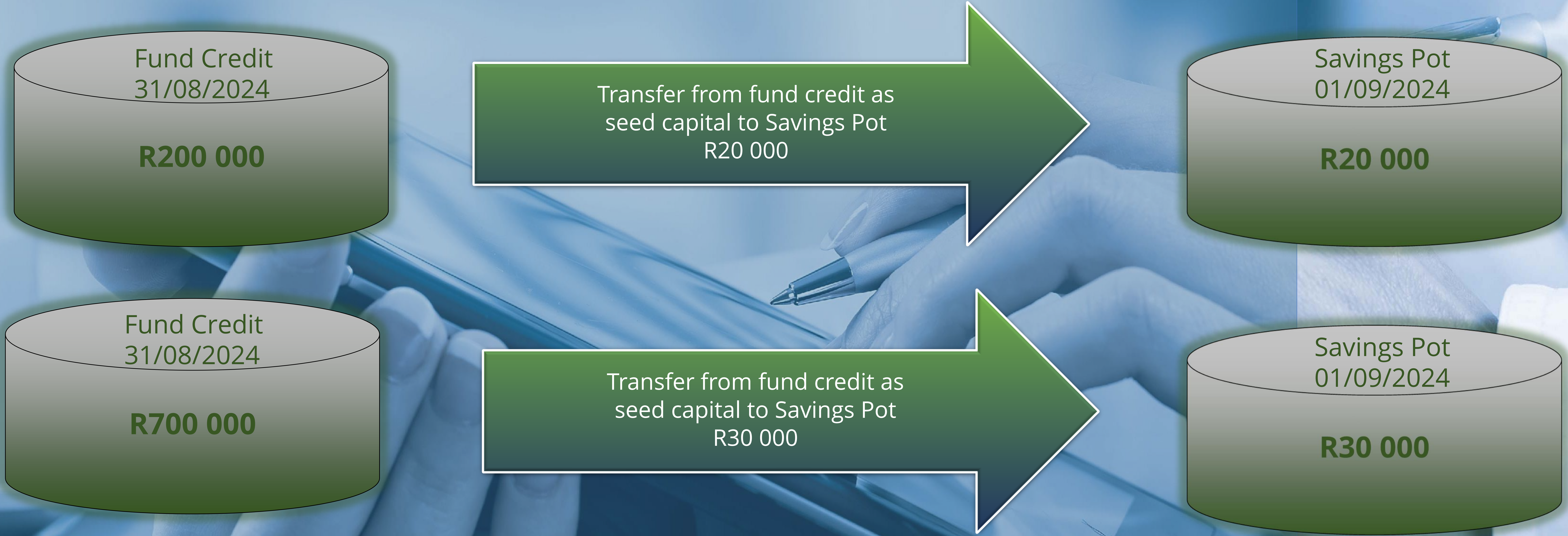
WHAT IS SEED CAPITAL AND HOW DOES IT WORK?

In order to provide members with a head start in the Savings Pot the legislation allows for transfer of 10% of the member's Fund Credit as at 31 August 2024, subject to a maximum of R30 000 into the member's Savings Pot. See illustrated examples below.



VESTED POT REMAINS PROTECTED

- Many members have expressed fear that they will lose access to their share of fund (fund credit) as at 31 August 2024 when the Two-Pot System comes into effect 1 September 2024.
- This is not true – a member's Vested Pot will forever be accessible to a member on the same basis it was prior to 1 September 2024

SEED CAPITAL AND THE SAVINGS POT

- **10% up to a maximum of R30 000** of members share of fund (fund credit) as at 31 August 2024 will be moved into the Savings Pot
- The transferred amount is called the Seed Capital and will be the opening balance in the member's Savings Pot as at 1 September 2024
- This will also apply to Defined Benefit Funds
- For Provident Fund members as at 1 March 2021 the seed capital transfer will be taken proportionately between their pre-annuitization vested and post annuitization non-vested accounts

OLDER MEMBERS

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Provident Fund Members – Older than age 55 as at 1 March 2021 still on the same Provident Fund

- These members are excluded from the Two Pot System by default
- Can elect to be in the two pot system or remain out of it
- Elect within one year of 1 September 2024, so before 1 September 2025
- Once off choice and cannot reverse a decision
- If opt in the member will also get seeding (starting balance in Savings Pot) of 10% up to a maximum of R30 000
- Seeding will be calculated at the last day of the month in which the member opts in

DEFINED BENEFIT FUNDS

- Defined Benefit (DB) Funds use a formula to define and calculate benefits
- The formula includes using pensionable service
- A member who claims from their Savings Pot on a DB Fund will incur a reduction in pensionable service

SECTION 37D DEDUCTIONS

Section 37D deductions as set out in the Pension Funds Act will be proportionately deducted against the Vested, Savings and Retirement Pots

These include:

- Housing loans or guarantees
- Divorce claims
- Maintenance claims
- Employee liability (debt to the employer)

SECTION 37D DEDUCTIONS - RESTRICTIONS

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01 **Housing Loans**

Restrictions:

Consent from the non-member spouse if the fund has received notification of a pending divorce

Savings withdrawal:

Permitted provided the withdrawal will not result in insufficient funds remaining to repay the loan or guarantee

02 **Employer Debt**

Restrictions:

- Notice from employer of its intention to claim against member's benefit in the fund
- Acknowledgement of Debt or judgment has been submitted to fund, but fund has not yet executed

Savings withdrawal:

- Permitted provided the withdrawal will not result in insufficient funds remaining to repay the judgment.
- Suspend a Savings Pot withdrawal benefit for 12 months where employer has not obtained a judgment

03 **Divorce**

Restrictions:

No housing loans or Savings Pot withdrawals allowed if fund receives notification in writing that:

- A divorce has been instituted as defined in Divorce Act
- An application has been made for a court order in respect of the division of assets of a marriage in accordance with the tenets of any religion

Savings withdrawal:

Permitted subject to consent from the non- member spouse

04 **Maintenance**

Restrictions:

Formal written notice from the maintenance investigating officer authorising suspension of a Savings Pot withdrawal, where the officer is aware of pending maintenance related proceedings against fund

Savings withdrawal:

Permitted provided the withdrawal will not result in insufficient funds remaining to repay the judgment

WITHDRAWALS (CLAIMS) FROM THE SAVINGS POT

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- Members may make withdrawals from the Savings Pot
- Members are allowed one withdrawal in a tax year (1 March to 28 February)
- For the initial period there will be a partial tax year, running from 1 September 2024 to 28 February 2025
- The minimum a member can claim is R2 000
- The full balance in the Savings Pot can be claimed, subject to one claim per tax year
- The amount the member claims will be subject to tax deduction at **marginal tax rates**, transaction fees and **any outstanding taxes due to SARS** which will all be deducted before a benefit is paid
- **Any withdrawal from the Savings Pot will reduce the lump sum available at retirement**
- A member with multiple retirement contracts can claim one withdrawal from each contract in a tax year. This as example would be in respect of members with more than one retirement annuity policy or memberships to more than one fund
- Where membership is terminated and a member has already claimed in the current tax year, the member must wait until following tax year to claim the balance in the Savings Pot, unless the balance in the Savings Pot is less than R2 000, in which case member can immediately withdraw the balance

TERMINATION OF MEMBERSHIP – RESIGNATION, DISMISSAL AND RETRENCHMENT (PENSION AND PROVIDENT FUNDS)

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Vested Pot

- No change
- Member can claim full amount in the Vested Pot as cash or elect to transfer
- Vested Pot remains protected where the Pot is transferred to another fund
- Where member elects to transfer their Vested Pot to their Retirement Pot, they forfeit the vested rights

Savings Pot

- Member can claim the full amount in the Savings Pot as cash, provided if member has already claimed in current tax year, member must wait until following tax year to claim balance in the Savings Pot, unless balance in the Savings Pot is less than R2 000, then the member can immediately withdraw the balance
- The member can elect to transfer the full amount in the Savings Pot
- Savings withdrawal amount is subject to tax deduction at MARIGINAL TAX RATES
- Savings withdrawal might be subject to transactional fee

Retirement Pot

- No withdrawals can be made from the Retirement Pot
- The Retirement Pot must be preserved until retirement

Termination of Membership in Event of Death
- Total of all 3 pots will be available as a cash lump sum
- Section 37C of Pension Funds Act will apply

WHAT HAPPENS WHEN I RETIRE?

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Vested Pot

- No change from current legislation
- Pre annuitisation (01/03/2021) benefit for provident members – cash lump sum
- Post annuitisation (01/03/2021) fund accumulated – part cash and part as annuity

Savings Pot

- Full balance can be taken as a cash lump sum subject to tax
- Member may elect transfer to the Retirement Pot and purchase an annuity

Retirement Pot

- Full balance must be used to purchase an annuity – pension, subject to the de minimus amount of R165 000

de minimus rule

- If the entire capital value of the member share of fund (**fund credit**) is less than R247 500 the full amount can be taken as a cash lump sum
- If the amount to be used to purchase the life annuity is less than R165 000, the member can take the full value as a cash lump sum

FUNDS EXCLUDED FROM THE TWO POT SYSTEM

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Funds excluded from the Two-Pot System

- Funds in liquidation
- Funds with no active members
- Beneficiary funds
- Closed funds
- Dormant funds
- Terminating funds
- Funds consisting solely of pensioners
- Unclaimed benefit members in unclaimed benefits funds or any other approved fund
- Old generation (legacy) Retirement Annuity funds

TRANSFERS

NO

- No transfer can be made into the Savings Pot within the same fund (except for the once-off seeding transfer
- This means a member cannot transfer money from the Retirement Pot or Vested Pot into the Savings Pot

YES

- A member can transfer money from the Vested and Savings Pot into the Retirement Pot if they choose to
- Once transferred to the Retirement Pot it cannot be transferred back to the Vested or Savings Pot
- Transfers of Pots to other funds may be done, but must retain its character i.e. Vested to Vested, Savings to Savings, Retirement to Retirement

YES

- All Pots must be transferred to the new fund 'as is' and Pots cannot be separated
- Transfers across funds can only happen upon termination of membership in a fund

EMIGRATION (RETIREMENT ANNUITY AND PRESERVATION FUNDS ONLY)

- Withdrawal from Savings Pot still allowed as per Savings Pot rules
- Three year emigration rule on balance still to apply

The 3 year emigration rule (applicable to Retirement Annuity and Preservation Funds only)

- Also known as the three-year rule, the test requires that those who emigrate show that they've been living, working and paying tax in another country for at least three years before they may withdraw their retirement savings from South Africa.

- Under a Preservation Fund the three-year rule only applies to the portion of the benefit after having exercised your right to your one pre-retirement withdrawal

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EXAMPLES

EXAMPLE - CONTRIBUTIONS

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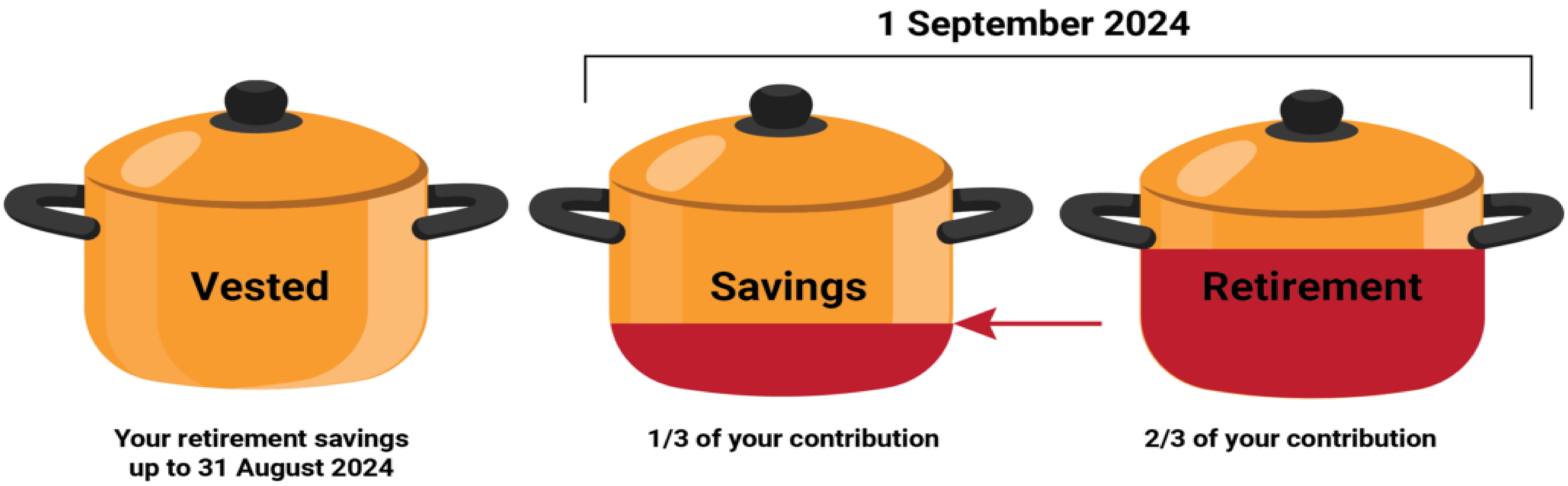

If Lebone contributes R1 500 per month **toward retirement** it means that R500 will go into her Savings Pot and R1 000 into her Retirement Pot from 1 September 2024

Retirement contributions means the portion of a member's contributions that are allocated to their share of fund (fund credit) every month and excludes contributions towards costs such as risk benefits, administration charges, etc.

EXAMPLE - CLAIMS

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From 1 September 2024 a member can claim **once a tax year** from their Savings Pot. The minimum amount that can be claimed is R2 000. Any claim amount will be subject to deductions of transactional fees and tax at the members marginal tax rate.

On 1 November 2024 Johannes submits a Savings Pot claim for the amount of R12 000 to his fund.

Balance in Savings Pot as at 01/11/2024	**R**	**22,530.00**
Claim amount	R	12,000.00
less		
Tax deduction at members marginal tax rate (as provided by SARS)	R	(2,350.00)
Transaction fee per claim	R	(365.00)
Net claim amount payable to member	**R**	**9,285.00**
Balance remaining in Savings Pot after claim	**R**	**10,530.00**

Any amount claimed from the Savings Pot will reduce the available cash lump sum the member can take at retirement.
This means that Johannes's available cash lump sum at retirement has been reduced with R12 000

EXAMPLE - CLAIMS

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From 1 September 2024 a member can claim **once a tax year** from their Savings Pot. The minimum amount that can be claimed is R2 000. Any claim amount will be subject to deductions of transactional fees and tax at the members marginal tax rate.

On 1 June 2027 Sarah submits a Savings Pot claim for the amount of R2 000 to her fund.

Balance in Savings Pot as at 01/06/2027	**R**	**2,100.00**
Claim amount	R	2,000.00
less		
Tax deduction at members marginal tax rate (as provided by SARS)	R	(450.00)
Transaction fee	R	(365.00)
Net claim amount payable to member	**R**	**1,185.00**
Balance remaining in Savings Pot after claim	**R**	**100.00**

Any amount claimed from the Savings Pot will reduce the available cash lump sum the member can take at retirement.
This means that Sarah's' available cash lump sum at retirement has been reduced with R2 000

ROLE OF EMPLOYER AND MEMBER

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- Administrator to determine the claims process
- Claims from the Savings Pot is made by members and do not need employer authorisation
- Fraud mitigation - Member personal details and tax number must be accurately provided to the administrator on a monthly basis – Conduct Standard 1 of 2022
- Member tax, id and passport number must be up to date with SARS
- Restrictions where there are pending or existing divorce or maintenance orders, housing loans/guarantees or matters of misconduct at employer
- Member tax affairs need to be in order
- August 2024 contributions and schedules to be submitted timeously

MEMBER SAVINGS WITHDRAWAL CLAIMS PROCESS

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1) Claim submitted online through GQM Member Portal
2) Member logs into portal with existing login details
3) OTP will be sent to either mobile or e-mail as selected by the member
4) Mobile and e-mail address to correspond to what is on the member record on administration system - provided by employer on the monthly contribution schedules
5) Member acknowledges all personal information to be correct and true
6) Failed validation - member advised to contact employer
7) Employer advises administrator of updated details
8) Administrator updates member record
9) On successful validation member selects "Savings Withdrawal" option on the portal
10) Member will be able to view available balance in Savings Pot
11) Member completes claim amount and update their banking details. Member will also be required to certify information related to restrictions as it applies to home loans, divorce and maintenance orders and employer debt.
12) Claim filters through to the administration system where it will be processed as a normal claim, tax will be applied for and on successful receipt of a tax directive the net amount processed.

Watch out for the new GQM Member Portal to be launched shortly

IMPORTANT NOTES ABOUT SAVINGS WITHDRAWALS CLAIMS

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- ✓ The calculation of the Seeding Capital to be transferred to the member's Savings Pot can only be calculated once your administrator has closed off the month of August 2024.
- ✓ This means that August 2024 contributions and accompanying contribution schedules must have been received, balanced and updated on the administration system.
- ✓ Once the contributions have been updated, the net retirement contributions for August 2024 can be invested and fund investments as at 31 August 2024 can be updated. In order to do so the administrator requires the investment prices, etc from the various asset managers.
- ✓ At this point the system can determine the member's fund credit (share of fund) and Seed Capital as at 31 August 2024 and create the 3 Pots for the member as at 1 September 2024.
- ✓ Members will realistically not be able to claim on 1 September, but only once the administrator has updated August 2024 and completed the Seed Capital transfer to the Savings Pot.
- ✓ Members must remember that claims from the Savings Pot will be subject to a **tax deduction** at **marginal tax** rates and could be subject to SARS recouping any arrear taxes a member has. There will also be a **transaction fee** per claim that will be deducted from the claim amount.
- ✓ Withdrawals from the Savings Pot will reduce the amount of cash a member has access to at retirement.
- ✓ Careful consideration must be given prior to submission of a claim and members should seek financial advice on these matters.

FREQUENTLY ASKED QUESTIONS FROM EMPLOYERS AND MEMBERS

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- May a fund or an employer decide not to join the two pot system and let things carry on as they are before 1 September 2024?
- From 1 September 2024, may a member/employer choose the percentage of the contributions that goes into the savings pot or retirement pot in the fund?
- Into which pot do additional voluntary contributions go after 1 September 2024?
- The member only started saving in a retirement fund after 1 September 2024, how does the two pot system work for them?
- Will the starting balance in the savings pot be R30 000 for every member?
- I want a bigger starting balance in my fund savings pot – can the employer or fund make it bigger?
- If I take a retirement savings from my savings pot while I am still employed, do I have to pay it back to the fund?
- Do I have to take money out of my savings pot on 1 September 2024 or can I take it later?
- What happens if I am a foreign national and my work permit ends in 2 years?

FREQUENTLY ASKED QUESTIONS FROM EMPLOYERS AND MEMBERS

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- What happens with the August 2024 contributions?
- How many starting balances (seeding amounts) will I receive in my savings pot?
- Do I have a choice about this starting balance in my savings pot? Can I decide not to receive it?
- If I take retirement savings from my savings pot while I am still employed (a savings withdrawal benefit), will I be charged a fee for doing this?
- Is there a maximum amount of retirement savings I can take out of my savings pot in the fund while I am still employed?
- How do I go about requesting this money from my savings pot?

QUESTIONS

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For more information on the Two Pot System please contact:

- Your fund's employee benefits consultant
- Contact GQM on talk2us@gqm.co.za
- Visit our website www.gqm.co.za (Communications)