

TWO POT RETIREMENT SYSTEM

Members of the Phumula Retirement Fund ('the Fund') will receive member communication from the Fund **and** from the City of Johannesburg Pension Fund ('CJPF') on the Two Pot Retirement System ('Two Pot System').

It is important to remember that the two funds are separate legal entities and are subject to their own rules. Members will therefore need to follow the processes set out by each fund to apply for their savings withdrawal benefits.

What is the Two Pot System?

The President has signed both the Revenue Laws Amendment Act and the Pension Funds Amendment Act, which allows for the implementation of the **Two Pot System effective 1 September 2024**.

The Fund has drafted and submitted a Rule Amendment that looks to update the Fund's registered Rules to allow for the Two Pot System. The Rule Amendment will be available on the Fund's website once registered by the Financial Sector Conduct Authority (the Regulator for South African retirement funds).

www.phumulafund.co.za

The South African Government is implementing the Two Pot System to:

1. allow in-service members to **withdraw a portion of their retirement savings without leaving employment**.

This acknowledges the financial stress that many South African's are facing following the Covid-19 pandemic and the difficult economic environment in South Africa.

2. ensure that in-service members also **save towards their retirement**.

Unfortunately, only 6% of South Africa's population are on track to retire comfortably*. It is therefore crucial that in-service members also focus on their retirement goals.

Most of the Two Pot System changes will not apply to members of the Fund. However, members will have access to a once-off amount before they exit employment, in addition to the early payment of lump sum option available after the age of 55. Further details are provided in the next few pages.

You are encouraged to read this communication carefully and to contact the Pension Fund Office should you have any questions.

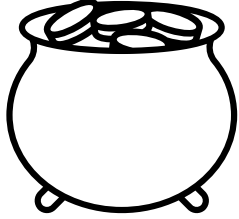
info@phumulafund.co.za / 011 551 9540

*Sixth Edition of 10X Investment Retirement Reality Report 2023

The Fund is a **closed defined benefit fund** which means that:

- **Closed fund** - In-service members are no longer contributing to the Fund. Monthly contributions are paid to the CJPF.
- **Defined benefit fund** - Member benefits in the Fund are calculated as set out in the Fund's Rules, using assumptions set by the Fund's Valuator.

The impact of the Two Pot System on Fund members' benefits will therefore be different from their benefits in the CJPF (a defined contribution fund) and compared to other members who are members of a different retirement fund.

Member's benefit at 31 August 2024	
Actuarial Interest	
	<p>A member's Actuarial Interest (a member's benefit in the Fund) is the value that the Fund's Valuator calculates today for a member's lump sum benefit that will be paid at retirement and their monthly pension that will be paid from retirement (including 13th cheques).</p> <p><i>The value of a member's pension in the Fund is based on their pensionable service up to 1 October 2008.</i></p>

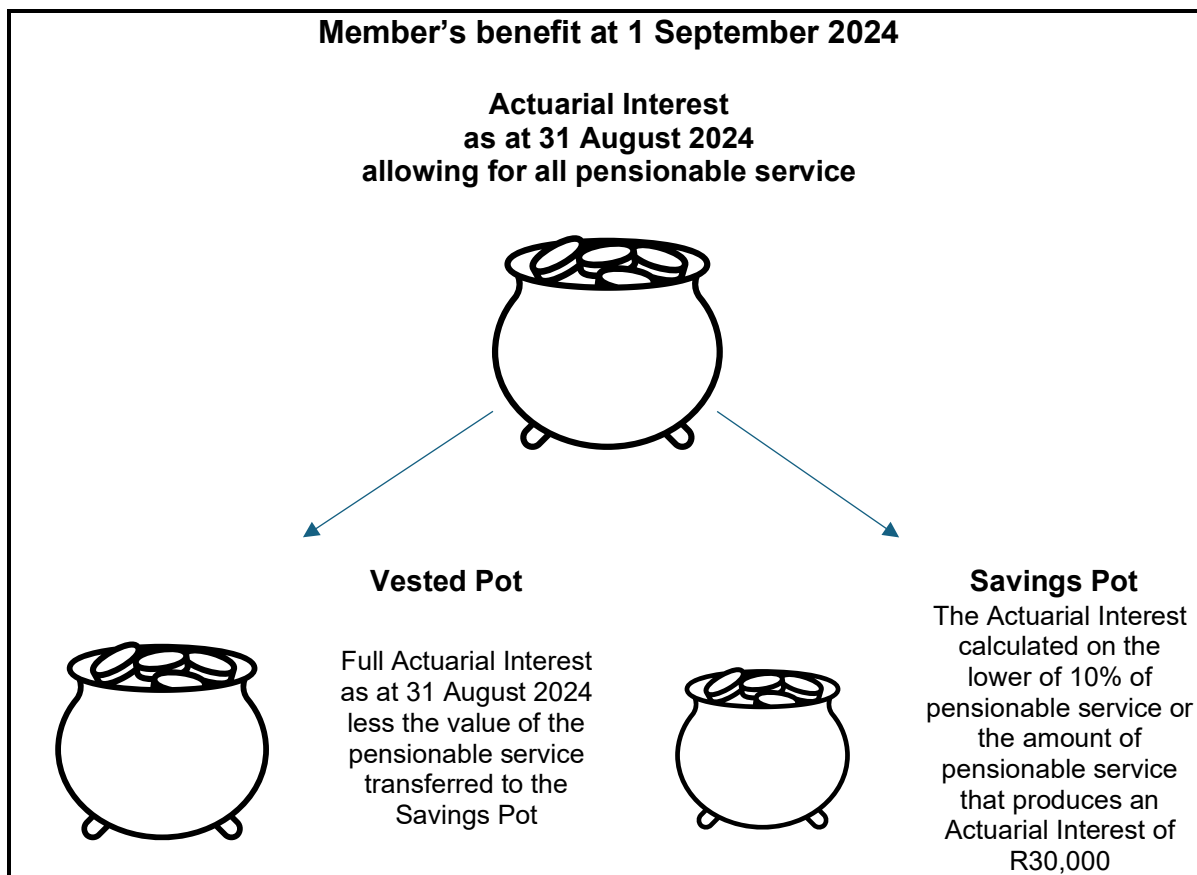
Effective 1 September 2024, the implementation date of the Two Pot System, the Fund's Valuator will calculate the number of years and months (including part months) of pensionable service that has a value equal to the lower of 10% of the Actuarial Interest or R30,000. This pensionable service will be transferred to the Savings Pot.

Important:

If a member's Actuarial Interest as at 31 August 2024 is over R300,000, the transfer to the member's Savings Pot will be **capped at the pensionable service that has a value of R30,000**.

The pensionable service transfer to each member's Savings Pot will happen automatically on 1 September 2024 and will be once off.

Let's look at an example on the next page.



Remember that, even though the above pictures show the value of a member's benefit in each pot on 1 September 2024, the Fund will only keep record of the pensionable service allocated to each pot. The value of the benefit based on the pensionable service in each pot will change based on the assumptions set by the Fund's Valuator.

As an example, if a member has 20 years of pensionable service (240 months) and this results in an Actuarial Interest of R1,200,000 as at 31 August 2024, then at 1 September 2024, 6 months of the member's pensionable service will be transferred to his/her Savings Pot. The value of the pensionable service transferred ('Actuarial Interest') will be R30,000. The remaining 234 months will stay in the Vested Pot with an Actuarial Interest at 1 September 2024 of R1,170,000.

It is important to remember that the Savings Pot will have 6 months of pensionable service going forward. The Actuarial Interest, calculated using the 6 months of pensionable service, will change over time based on the assumptions set by the Fund's Valuator. It may therefore be more than or less than R30,000 after 1 September 2024. The same applies to the 234 months of pensionable service that have remained in the Vested Pot.

The Savings Pot

As noted above, from 1 September 2024 each member will have a Vested Pot and a Savings Pot in the Fund.

The Savings Pot will consist of the lower of 10% of a member's pensionable service or the amount of pensionable service that has an Actuarial Interest of R30,000 as at 1 September 2024.

The value of a member's Savings Pot will be recalculated using the pensionable service allocated to the Savings Pot and based on assumptions set by the Fund's Valuator. The value in future may be higher or lower compared to the value as at 1 September 2024.

No additional transfers will be made to the Savings Pot because members do not receive contributions into the Fund. Contributions are paid to the CJPF.

Savings withdrawal benefit

The Two Pot System (effective 1 September 2024) will allow members to make savings withdrawals from their Savings Pot at any time without leaving employment. In addition, members can access their Savings Pot, or a portion, when exiting the Fund (withdrawal, resignation or retirement), subject to certain conditions.

If members change employers, they can transfer their Savings Pot to the savings pot in their new retirement fund.

Important:

Savings withdrawals should only be made in the case of an emergency and should be seen as **early withdrawals from a member's retirement benefit** in the Fund.

The savings withdrawal is not an extra benefit offered by the Fund. If members choose to take the savings withdrawal, it will result in their overall Fund benefit reducing.

Members can choose not to make savings withdrawals from their Savings Pot until they retire. They will then have a larger lump sum available at retirement. Alternatively, members can take a portion of their Savings Pot in cash at retirement and choose to use the remaining portion to increase their pension.

Savings withdrawals **can be made anytime from 1 September 2024**, subject to the following:

- ❖ Must be R2,000 or more (before administration fee and tax deduction)
- ❖ Can be up to the maximum amount in the Savings Pot
- ❖ Can only be made once every tax year (1 March to 28 February)

If a member withdraws from the Fund in the same tax year as taking a savings withdrawal, and the value of their Savings Pot is under R2,000, the money can be taken in cash.

- ❖ Will be subject to an administration fee

The administration fee depends on the value of the savings withdrawal and is calculated at 2% of the gross savings withdrawal value subject to a minimum of R100 and a maximum of R600. Therefore, if you take a R30,000 savings withdrawal benefit in September 2024 then an administration fee of R600 will be payable.

- ❖ Will be added to a member's taxable income and **taxed at a member's marginal tax rate**

Marginal tax rates are shown below.

Annual taxable income*	Marginal tax rate
Less than R237,100	18%
Between R237,101 and R370,500	26%
Between R370,501 and R512,800	31%
Between R512,801 and R673,000	36%
Between R673,001 and R857,900	39%
Between R857,901 and R1,817,000	41%
Above R1,817,001	45%

*Note that this excludes the value of a savings withdrawal. If members are close to the top of the income band, then the savings withdrawal may move them to the next income band and the next highest marginal tax rate.

The Fund is unable to advise members what their marginal tax rate will be because the Fund has no information regarding members' income. The Fund's administrator will apply for a tax directive from the South African Revenue Service ('SARS') and deduct the tax that is specified.

The retirement lump sum tables available at retirement offer members more favourable tax rates (maximum of 36% and with a pre-1998 tax free amount) compared to the marginal rates (maximum of 45%) that will apply when members make savings withdrawals from their Savings Pot.

Very important:

If you have any amounts owing to SARS, then these amounts will also be deducted from your benefit by SARS. Therefore, if you owe SARS a lot of money, your entire savings withdrawal benefit (excluding the administration fee paid to the administrator) may be paid to SARS!

- ❖ Will be subject to any **Section 37D deductions**.

Section 37D of the Act ensures that members:

1. are accountable to their partner during a divorce in terms of a Divorce Order
2. pay maintenance to their child/children as per a Maintenance Order.

Section 37D claims will be deducted proportionally from a member's Vested Pot and Savings Pot if the Fund is required to pay a Section 37D claim.

The Fund's administrator will check if a member is liable in terms of Section 37D **before proceeding with a savings withdrawal payment**. If a member is liable, the Fund's administrator will check to see if the value of the member's benefit (Vested Pot plus Savings Pot) is sufficient to cover both the liability and the savings withdrawal.

The savings withdrawal will be paid if the member's benefit is sufficient to cover both the liability and the requested savings withdrawal. If not, the savings withdrawal application will be declined.

Applying for a savings withdrawal

Important:

Members are required to have the following information and documentation available when applying for a savings withdrawal:

- Proof of identity
- Proof of banking details (the bank account must be in your name)
- Proof of income tax number
- Personal physical and postal address details
- Payslip (to be able to complete your annual taxable income).

Option 1 – Website

Members will be able to submit claims for a savings withdrawal on a dedicated website from 1 September 2024.

<https://mymoneymatters.alexforbes.com/twopot-db.html>

The claim form will be available as an editable PDF document that will need to be completed and signed electronically.

Detailed instructions will be available on the website to assist members with the process.

Please note that the website will only be available from 3 September 2024.

Option 2 – Claim form

Members will be able to complete the attached claim form and email it to the Pension Fund Office (info@phumulafund.co.za) for processing. Alternatively, members can visit the Pension Fund Office from 2 September 2024, together with their information and documentation, to complete the form.

The Fund's administrator anticipates that savings withdrawals will be paid within four to six weeks of receiving the savings withdrawal benefit application assuming that the administrator experiences no problems with the tax submission or bank verification processes.

Please contact the Fund's administrator if there are any delays

zzPhumulaAdmin@alexforbes.com / 0860 100 333

The Vested Pot

The Fund Rules that applied to all Fund benefits before 1 September 2024 continue to apply to the Vested Pot after 1 September 2024.

Therefore, the Two Pot System does not stop members over the age of 55 from applying for an early payment of lump sum. Members are reminded that any early payment of their lump sums will also reduce their pensionable service and their benefit available at retirement.

Please note that payments and requests for information regarding early payment of lump sums received in September 2024 are likely to be delayed as a result of the Two Pot implementation.

Please contact the Pension Fund Office should you have any questions.

info@phumulafund.co.za / 011 551 9540

Savings pot withdrawal form - defined benefit members only

You can email this completed savings pot claim form for processing to DB2-PotClaims@alexforbes.com



Why do I need to complete this form?

You are still employed or a member of the fund but you want to withdraw cash from your savings pot.

Name of fund

Name of employer / paypoint (if applicable)



Things to consider before withdrawing

- You are allowed one cash withdrawal in a tax year (March this year to February next year)
- You can withdraw any amount from your savings pot, as long as it is more than R2 000.

How does this benefit me?

- You'll have money to help you through financial difficulties.
- The money will be deposited directly into your bank account after the claim has been processed and the South African Revenue Services has issued a tax directive.

How does this NOT benefit me?

- Withdrawals from your savings pot will reduce your lump sum cash available when you retire.
- All withdrawals will be taxed at your marginal tax rates. The withdrawal amount will be included in your annual income and you won't benefit from any tax-free amounts.



If you need help understanding your options, please contact your dedicated financial adviser. Alternatively, you can contact Alexforbes. We also encourage you to visit our My Money Matters website to get more information on the options available to you. [Click here](https://mymoneymatters.alexforbes.com/). (https://mymoneymatters.alexforbes.com/)

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Section 1 | About you (the member)

Fill in the details below

(You need to complete all the sections below. If there is any information missing, it may delay the processing and payment of your claim.)

Your name(s)

Your surname

Identity or passport number

Date of birth

Employee number (if applicable)



The details you include in the above section must be accurate. Your name, surname and ID or passport number must match your identity document. Alexforbes checks this information with the Department of Home Affairs and any errors or discrepancies may delay the processing and payment of your claim.

Residential address

Unit number

Complex name

Street number

Street or farm name

Suburb

City or town

Country

Code

Postal address (Tick yes if your postal address is the same as residential address)

Yes

Code

Contact details

Please give us your *personal* (not professional) contact details.

Cell

Home

Email

Tax details

Income tax number

Country of residence for tax purposes*



Note: *Please [click here](#) to complete a **Withholding tax on interest (WTI)** form if your country of residence for tax purposes is not South Africa.

