PetroSA
Retirement Fund

NEWSLETTER – THE 2 POTS EDITION

Dear Members

By now you will all be aware of the ever topical “Two Pots” system. Our latest communication was via the June 2024 Newsletter. With the implementation date of 1 September 2024 fast approaching, it's crucial for everyone to understand how the Two Pots will reshape retirement planning in South Africa in general, and how it impacts you as a member specifically.

We've recently started virtual presentations. Please also browse the Two Pots link on AF Connect where you can register to attend an upcoming webinar or watch the recordings of previous webinars.

How the “two pots” system applies to members of provident funds who were present prior to 1 March 2021?

Members who were 55 years or older on 1 March 2021 and who are still members of the same provident fund?	**These members will have the option to participate in the two-pot system. If these members don’t choose to participate in the new system, then everything remains the same as is at the moment.** **These members will be given 12 months from 1 September 2024 to choose to opt in to the two-pot system – this is a once-off option.**
Members who were under the age 55 on the 1 March 2021	**These members will participate in the new “Two pots system”. However, the monies accrued up until 1 March 2021 will be kept in a separate sub-account – as is at the moment, and will continue to grow with investment returns. The rules existing at that time (1 March 2021) will apply when you take a retirement benefit.**

How the “two pots” system applies to members who joined after 1 March 2021

They participate in the new “Two-pots” system.

How the “two pots” system applies to deferred members and deferred pensioners (including those members who were 55 and older on 1 March 2021

They participate in the new “Two-pots” system. Members over aged 55 on 1 March 2021, who are deferred members, will have the option to participate in the two-pot system. They will be given 12 months from 1 September 2024 to choose to opt in the two-pot system.

Before we dive into the specifics, let’s begin with a summary of why the “Two Pots” system came about and how it impacts you

OBJECTIVES OF THE TWO POTS

To allow you to access a PORTION of your retirement savings if you are experiencing a financial emergency

AND

To make sure that the BULK of your future savings remains invested, so that you will have an income when you reach retirement age.

How did these changes come about?

Firstly, the household savings rate in South Africa is historically very low. This poor savings culture is a product – in many (if not most) instances - of South Africans simply not having enough disposable income at the end of every month, making it difficult to save. The situation worsened during the Covid pandemic, forcing many to deplete their savings (if any) just to cover basic needs. In fact, results of surveys suggest that a significant number of people borrowed money in 2022, mainly for essential living expenses like food and groceries.

While the primary purpose of retirement funds is to save for an income post-retirement, many members withdraw from their retirement savings prematurely (when they change jobs), often to pay off debts or cover household or other financial emergencies. As a result of these early withdrawals, only about 6% of fund members can maintain their pre-retirement lifestyle after they retire. A staggering 91% of members take cash withdrawals when changing jobs. This underlines the need for better preservation of retirement savings.

The government has implemented a series of measures, including imposing high taxes on early withdrawals, to discourage this behaviour, but these efforts have had limited success. The series of retirement reforms, dating back to 2012, has eventually also led to the establishment of the Two Pots system.

Under the Two Pots system, the intention is to improve the savings culture (through preservation), while also allowing access to limited funds for emergencies. Thus, members will have the option to take **limited** cash withdrawals **while in-service** and before retirement (if needed for a financial emergency). Under suitable assumptions, over the long term the Two-Pots system is likely to improve new members' retirement outcomes by 2 to 2.5 times compared to those under the current system.

The Two Pots system seeks to provide a balanced solution, by helping to address retirement fund members' needs for **longer-term financial security** *and* for **short-term financial relief**. The delicate trade- off between these two objectives was considered in formulating the Two Pots retirement system.

This applies to ALL FUNDS in South Africa – it is "LAW" and is not a Fund-specific decision! The Two Pots system does NOT apply to pensioners.

NOW THAT WE HAVE COVERED THE WHY, LET'S COVER THE WHAT

What happens on 01 September 2024 – the effective date of the Two Pots system?

Your savings prior to 01 September 2024 becomes your "Vested Pot" which continues to grow with investment return. All contributions after 1 September 2024 will be split between the "Savings Pot" and "Retirement Pot". So, although we talk about the Two Pots system, there are actually **three** components (pots). (Components and Pots are used interchangeably).

- **Savings Component ("Savings Pot").** From 01 September 2024, one-third of your future monthly contributions go here. This pot will be seeded with the lesser of ten percent and R30,000.00 (which comes out of your existing savings, i.e. out of your Vested Pot). You will be allowed to make withdrawals from this pot in cash before you exit the Fund (under certain terms conditions). Previously, you only had this option when leaving employment, through resignation, retrenchment, or retirement.
- **Retirement Component ("Retirement Pot").** Two-thirds of your future monthly contributions go here. You will be forced to preserve the full balance of your Retirement Pot, as part of the initiative to improve retirement outcomes. This will *only* become available to you at retirement, and *only* as a monthly pension, so no amounts can be paid to you out of this pot until retirement.
- **Vested Component ("Vested Pot").** This is your retirement savings up until 31 August 2024 (minus the relatively small amount of "seed money" being credited to your Savings Pot). The same rules will continue to apply to your Vested Pot i.e. whatever rules apply to your benefit prior to 01 September 2024, will continue to apply to your Vested Pot after 01 September 2024 - e.g. you may access whatever retirement savings are in your Vested Pot as a cash benefit in full when you resign, and as a cash benefit of up to one- third when you retire.

Your fund is a "Provident Fund" – your Vested Component consists of your Vested Portion (if you have one!) and your Non-Vested Portion (if you have one!) These different pots (components) will all be discussed in detail later.

While you have three pots/components, it all remains one account.

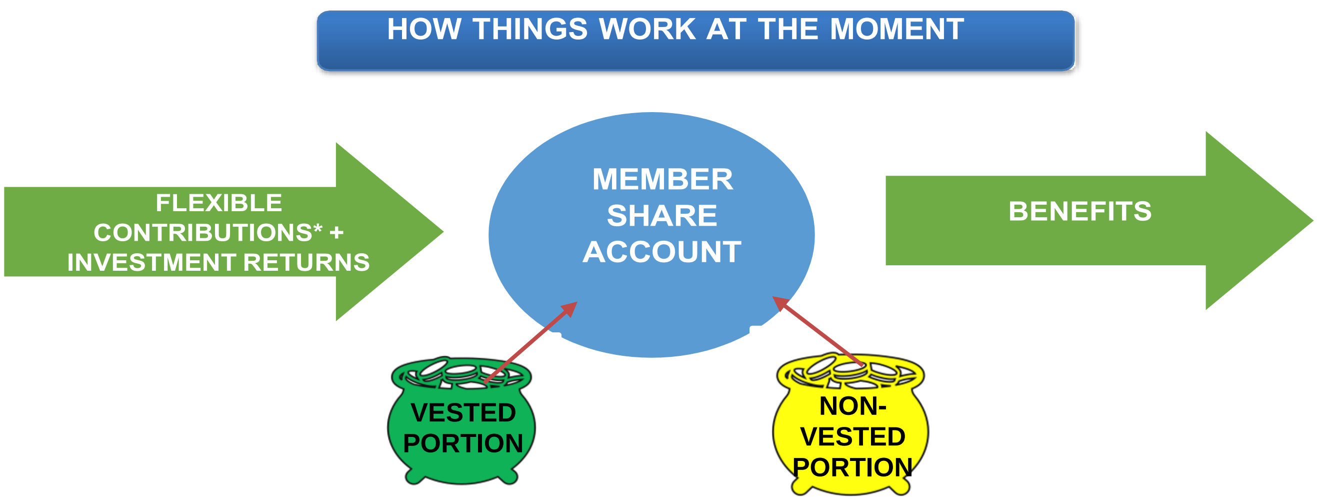
MEMBER SHARE ACCOUNT

Your Retirement Savings will be apportioned to three components, but all still constitutes your Member Share Account.

Your fund is a "Provident Fund" – your Vested Component consists of your Vested Portion (if you have one!) and your Non-Vested Portion (if you have one!) These different pots (components) will all be discussed in detail later.

What's different to how things work now?

Up until 1 September 2024, all the money in your fund is in **one** "pot" called your Member Share (often referred to as your Fund Credit). Contributions are made into this account by yourself. Investment returns are credited to this account. However, members have no access to this money unless a benefit is paid out - i.e. on retirement, withdrawal (resignation, dismissal, retrenchment) and death.

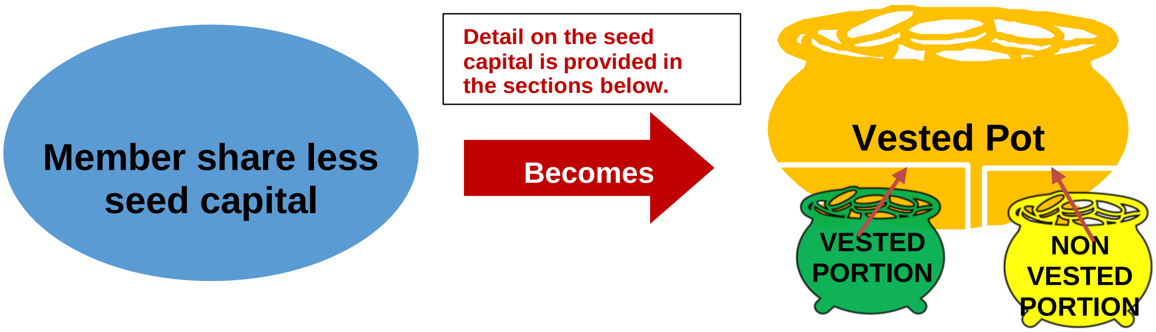


Note: Your Vested and Non-Vested Accounts only applies to those members that were present on 1 March 2021

**The employer contributions are net of insured benefit premiums and fund expenses.*

What changes is that, on 1 September 2024, the amount of your member share account (illustrated above) becomes your "VESTED POT" i.e. all the money you've saved for retirement up to 31 August 2024, including the August 2024 contributions even if they were only invested in September 2024, less your "SEED CAPITAL".
Your Vested Pot will then be closed to new inflows, so you won't be able to contribute to this pot anymore. But the money you have saved in your Vested Pot will remain invested and will keep growing with investment returns until you take benefits from the Fund (after you leave employment).

HOW THINGS WILL WORK AFTER 01 SEPTEMBER 2024



Existing rules apply (and will continue to apply) to the full amount in the Vested Pot, i.e. allowing full (or partial) cash withdrawals on resignation (taxed on the withdrawal tax table) or up to one-third cash lump sums on retirement (taxed on the retirement tax table). *The Vested Pot (component) protects the existing rights of members of funds as at 31 August 2024 - existing rights apply to the retirement savings that you had in the Fund before the change in regime.* ***In other words, the current tax rules and the right to access the Member Share in cash on resignation that exists now will continue to apply to the Vested Pot, after 01 September 2024.***

***Remember that the Vested Pot includes both the Vested Portion and Non-Vested Portion**

WHAT HAPPENS TO FUTURE CONTRIBUTIONS?

We already know that the Vested Pot is closed and cannot receive new contributions. From 01 September 2024, future contributions are split between TWO further components (Pots):

RETIREMENT POT

- 2/3rds of future net contributions after 1 September 2024 will go to the "retirement pot".
- Members will continue to earn investment returns on the monies in this retirement pot.
- The money in this pot **must** be preserved **until retirement.**
- On retirement, you **must** buy a pension with the entire amount in the retirement pot – except if the retirement pot plus 2/3rds of the vested pot is less than the *de minimis* amount (R165 000), all may be withdrawn as a lump sum.

SAVINGS POT

- 1/3rd of future net contributions from 1 September 2024 will go to the "savings pot"
- You can make one withdrawal per tax year from the Savings Pot
- Withdrawals from the savings pot are subject to certain conditions

The result is that you will have three components or “pots”, making up your Member Share account. And that’s what changes! Next, we delve deeper into how the three different pots operate, with a focus on the Savings Pot and the savings withdrawal process.

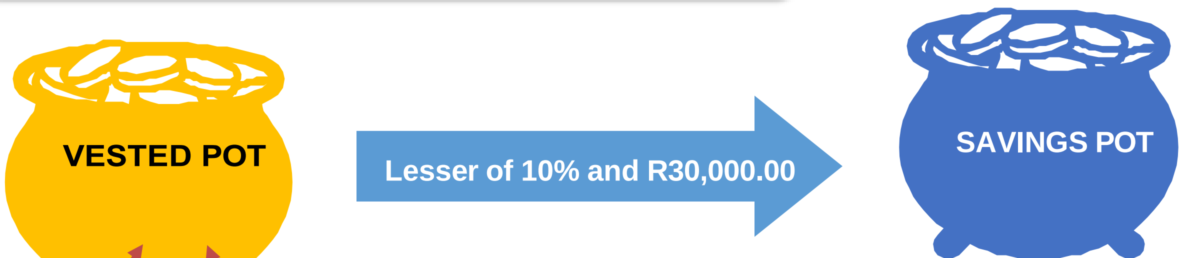
MORE ABOUT THE SAVINGS POT

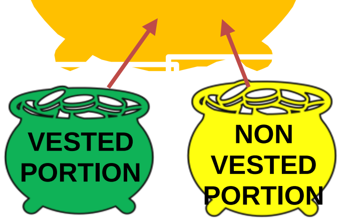
The Savings Pot is intended to provide access to emergency funding. How exactly will withdrawal from your Savings Pot work, and what are the conditions of withdrawals? Initially i.e. on 01 September, you will have no contributions in the Savings Pot, so the Savings Pot is seeded with up to R30, 000.00. The actual amount of the seed capital is 10% (ten percent) of your Member Share at 31 August 2024 BUT UP TO A MAXIMUM OF R30, 000. (This money comes out of your Vested Pot – it is not an extra amount that is being credited to you.)

WITHDRAWING MONEY FROM YOUR SAVINGS POT AND THE CONDITIONS OF WITHDRAWALS

- You can withdraw your seed capital on or after 1 September 2024 (if more than R2 000).
  Note: There will be a process for doing this, so payment will not be immediate or automatic. The process is covered further in the document.
- You can only withdraw cash if you have more than R2 000 in your savings pot (component). If you have less, you will not be eligible to make a withdrawal. (The withdrawal cannot be for less than R2 000, but if you have more than R2 000 in your Savings Pot you don't have to withdraw the full balance.)
- You can only make one withdrawal in a tax year (a tax year runs from beginning March to the end of February the next year). Keep in mind that the amount you apply to withdraw is not the money you will receive – tax and a processing fee will be deducted. We cover this further on in the document.
- SARS will deduct tax from any amount that you withdraw from the Savings Pot at your current marginal tax rate, i.e. the rate at which your monthly salary is taxed.

HOW THE SEEDING AMOUNT WILL WORK





With effect from 1 September 2024, 10% of your savings, up to a maximum of R30, 000, will be transferred from your Vested Pot to your Savings Pot, i.e. will "seed" your Savings Pot. You will then be allowed to withdraw this amount if you so wish (if more than R 2,000).

EXAMPLE OF THE SEED AMOUNT AS AT 1 SEPTEMBER 2024

Consider the three examples below, each showing different amounts accumulated at 31 August 2024.

Example 1:	Example 2:	Example 3:	Example 4:
Member Share: R 19 000	Member Share: R 50 000	Member Share: R 500 000	Member Share: R2 000 000
10% of R19 000 = R 1 900	10% of R50 000 = R 5 000	10% of R500 000 = R 50 000	10% of R2 000 000 = R 200 000
R 1 900	R 5 000	R 30 000	R 30 000

So, what finally goes into the SAVINGS POT on 1 Sept 2024 ?

Example 1: R1 900 No withdrawal allowed	Example 2: R5 000 Withdrawal up to R5 000	Example 2: R30 000 Withdrawal up to R30 000	Example 3: R30 000 Withdrawal up to R30 000

Remember, you cannot withdraw from your Savings Pot, if the balance of your Savings Pot is less than R2 000. The maximum amount you are permitted to withdraw is R30 000.

TAXATION OF WITHDRAWALS FROM THE SAVINGS ACCOUNT (INITIALLY AND ANNUALLY)

Let's say you make a withdrawal from the Savings Pot either at 01 September 2024 or at some later date in the tax year. What tax is payable on this withdrawal? You will be taxed on every withdrawal you make from the Savings Pot. Remember that you can only make one withdrawal in each tax year. Any withdrawal is taxed at your marginal rate, which is set out in the below tax table for the 2025 tax year i.e. the tax year 01 March 2024 to 28 February 2025.

SARS TAX TABLE FOR THE 2024 TO 2025 TAX YEAR

Taxable Income (R)	Rates of tax
1 – 237 100	18% of taxable income (before the Primary Rebate)
237 101 – 370 500	42 678 + 26% of taxable income above 237 100
370 501 – 512 800	77 362 + 31% of taxable income above 370 500
512 801 – 673 000	121 475 + 36% of taxable income above 512 800
673 001 – 857 900	179 147 + 39% of taxable income above 673 000
857 901 – 1 817 000	251 258 + 41% of taxable income above 857 900
1 817 001 and above	644 489 + 45% of taxable income above 1 817 000

TAXATION OF SAVINGS POT WITHDRAWAL EXAMPLE

Taking the above tax tables into account, let's consider the practical example of John who earns R19 750 per month (R237 000 per annum) and has R1 million in his Vested Pot at 01 September 2024.

Current tax rate:	18% of his salary
Tax on R237 000:	**R42,660** (18% x R237 000) for the tax year ending 28/02/25, minus the Primary Rebate of **R17,235**
John's Vested Pot balance (1 Sep'24):	**R1 million**
Transfer to John's Savings Pot (1 Sep '24):	**R30 000** (the limit)
John decides to withdraw	**R20 000**

John has decided to withdraw R20 000.

His current annual income is R237 000.

His annual income including the R20 000 withdrawal is now **R257 000** (R237 000 plus R20 000).

This moves John's tax rate from 18% to 26% when determining the tax on his Savings Pot withdrawal, because he automatically moves into a higher tax bracket.

WHAT DOES JOHN RECEIVE AFTER TAX?

Savings Pot withdrawal:	**R20 000**
LESS Tax on R20 000:	**MINUS R5 200** (26% of R20 000)
After Tax:	**R14 800**

NOTE: A PROCESSING FEE (SEE BELOW) WILL BE PAYABLE TO THE FUND'S ADMINISTRATOR - THIS WILL ALSO BE DEDUCTED FROM THE WITHDRAWAL AMOUNT THAT YOU APPLY FOR.

- Saving component withdrawals between R2,000 and R5,000 will incur the minimum transaction fee of R100
- Saving component withdrawals between R5,000 and R30,000 will incur a fee equal to 2% of the pre-tax withdrawal amount.
- Saving component withdrawals above R30,000 will incur the maximum transaction fee of R600
- Minimum and Maximum fee limits will be subject to annual inflationary adjustments

IMPORTANT NOTE: You should really only withdraw money from your Savings Pot in financial emergencies – ideally, you should otherwise not touch this money until you retire from employment. You are taxed on any amount you withdraw, and you will also pay an admin fee on the amount you withdraw. The more you "dip into" your Savings Pot while you are working, the lower your retirement savings will be when you eventually retire.

SUMMARY OF THE POTS / FREQUENTLY ASKED QUESTIONS

From 1 September 2024 you will have *three pots*, because you were a member of a fund prior to 01 September 2024. Members who first join a fund after 01 September 2024 will only have two pots, because there is no Vested Pot for them, i.e. they have no pre-01 September 2024 retirement savings in the Fund. So new members joining the Fund from the implementation date onwards will only have two pots (i.e. the savings pot and the retirement pot), unless they choose to transfer into the Fund any pre-September 2024 savings (Vested Pot) that they may have in another retirement fund.

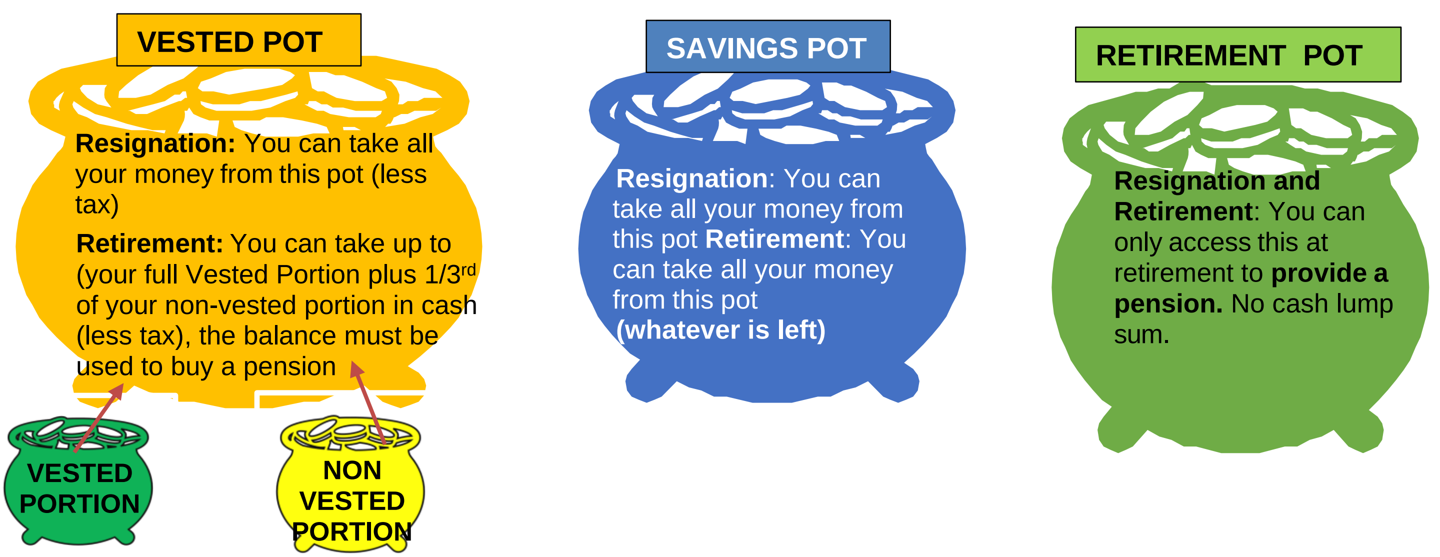
WHAT WILL I GET IN CASH IF I RESIGN OR RETIRE AFTER 1 SEPTEMBER?

Resignation: We do not recommend that members withdraw their retirement savings when changing employment, but the Two Pots system will continue to allow you, as a member, to have lump sum access to your retirement savings accumulated before 1 September 2024 (the Vested Pot or vested component), when changing jobs or on leaving your employment at any date before retirement.

You will also be able to take all the money in your Savings Pot in cash (less tax), unless you have already taken some cash out of the Savings Pot in the current tax year. If you have already taken money out in the current tax year you will not be permitted to touch the rest of the Savings Pot when you change jobs, unless the remaining amount is *less than* R 2 000 – otherwise you will have to **wait** until the next tax year to access this money in cash.

You cannot access any money in your Retirement Pot. Your Retirement Pot must either be preserved in the Fund or be transferred to your Retirement Pot with your new employer fund (or to a preservation or RA fund). You cannot access any part of your Retirement Pot before retirement - this pot only becomes available at retirement, and even then, *only to provide a pension*.

Retirement: On retirement you can access up to one third of your Vested Pot as a cash lump sum (two-thirds *must* be used to fund a monthly pension). This is the same that applies currently i.e. prior to 01 September 2024. In addition, you have access to (up to) the full balance of your Savings Pot. Your full Retirement Pot *must* be used to fund a monthly pension.



DO MEMBERS HAVE TO RESIGN BEFORE THE EFFECTIVE DATE (1 SEPTEMBER 2024) TO ACCESS THEIR RETIREMENT SAVINGS TO DATE?

No, members must not resign! The amount in the Vested Pot will always be available to you in cash (less tax) should you resign at a later date after 1 September 2024.

Tax applies to all lump sum withdrawals. However, withdrawal benefits paid from the Vested Pot will be taxed at the withdrawal tax rates, whereas withdrawals from the Savings Pot will be taxed at your marginal tax rate. In this newsletter, we only deal with what is commonly asked – how will tax apply on a Savings Pot withdrawal. For information on how tax will apply on the cash portion of your resignation or retirement benefit, please refer to the Resignation and Retirement Option guides available from the Fund.

WILL THE IMPLEMENTATION OF TWO POTS HAVE AN EFFECT ON MY END RETIREMENT BENEFIT?

The Two Pots system does not need to impact your retirement savings. If you do not access money from the Savings Pot, you will have the same amount of money at retirement than you would have had before the Two Pots system was introduced. This is the recommended disciplined approach if you do not have any financial emergencies.

However, members who previously or typically withdrew their member share upon resigning from an employer will now achieve better retirement outcomes. This is because they will be required to preserve a portion of their money (their Retirement Pot) until retirement, while still having access to emergency funds from the Savings Pot.

WHAT IS THE PROCESS FOR MAKING A CASH WITHDRAWAL FROM MY SAVINGS POT ON OR AFTER 01 SEPTEMBER 2024

Withdrawal from your Savings Pot will be an online/electronic process. As previously advised, you will have to register on AF Connect to make application for a withdrawal from your Savings Pot account. This can be initiated using AF Connect online, or by downloading the AF mobile app to your phone, or the Alexforbes **WhatsApp** self-service. We urge all members to register on AF Connect regardless of whether you intend to make a withdrawal, because it will provide you with snapshot of your "pots" at any given time.

Alternatively, the steps to follow (to register) are:

Go to the website: https://afconnect.alexanderforbes.co.za/

- Select REGISTER, complete the required fields and click on the REGISTRATION BUTTON
- Or simply scan the code below

You will be sent a confirmation e-mail or SMS based on the registration contact channel selected.

If you do not have internet and are unable to register or apply online, there are the options available to you is shown below:

- Alexforbes walk-in centre (venue to be confirmed), where dedicated staff will assist you with the registration and application for a withdrawal from your Savings Pot.

Regardless of how you apply to access your Savings Pot, you will need a copy of your ID, proof of bank details, your tax number and proof of address.

CAN I TRANSFER BETWEEN POTS

The answer is yes – provided that you're transferring to the Retirement Pot only. You may, at any time, request the administrator to transfer amounts from your Savings Pot into your Retirement Pot. This is a tax-free transfer. Remember, you only have access to your Retirement Pot when you retire and the full balance in your Retirement Pot must be used to purchase an annuity/ies (pension). Once a transfer is made to your Retirement Pot, you cannot reverse the transfer or transfer any amounts out of your Retirement Pot to your other pots.

HOW ARE MY POTS INVESTED

All three pots follow the same investment strategy.

For members in the Life Stage Model i.e. the default strategy where members do not select specific investment portfolios, the default investment portfolios are used for all pots, based on the life stage model.

For "Own Choice" members i.e. members who have chosen their own investment portfolios, the same selection applies across all three pots. For instance, if you have chosen a 50% allocation to the Market Portfolio and 50% to the Low Equity Balanced (LEB) Portfolio, this 50:50 split will be implemented in each of your pots (Vested, Savings, and Retirement pot).

WHAT HAPPENS WHEN I CHANGE JOBS AND WANT TO MOVE MY MONEY TO ANOTHER RETIREMENT FUND

You must move all three pots to your new fund. Each pot will be transferred to the equivalent pot in your new fund.