

The **Two-Pot** Retirement System:

An update from Sanlam Corporate



Fund Credits are being reclassified

From 1 March 2024, a member's Fund Credit and their future contributions will be reclassified into a 'vested pot', 'emergency savings pot' and 'retirement pot'. We will change all Fund Credit records on our administration system to this new naming convention from 29 February 2024.

You may recall the T-day tax legislation that came into effect on 1 March 2021 where a member's Fund Credit was classified as 'vested' and 'non-vested' on our system. This means that the vested pot will have two sub-categories - the 'T-day vested Fund Credit' and the 'T-day non-vested Fund Credit'.

Fund Credit Classifications

T-DAY LEGISLATION

01/03/2021

Contributions paid from 01/03/2021 to a Provident Fund



TWO-POT LEGISLATION

01/03/2024

New Contributions paid from 01/03/2024, **excluding** members ≥ 55 on 01/03/2021 who were members of the fund on 01/03/2021



The new **Fund Credit classifications are important** as they impact downstream processes, such as transfers between administrators (Section 14s and Recognition of Transfer Forms) and what members see on their benefit statements.



Members over age 55 can choose not to participate

Provident Fund members who were 55 or older on 1 March 2021 and who remained members of that fund until 1 March 2024 (referred to as members 55+) can choose to participate in the two-pot system or remain contributing according to the pre-T-day (01/03/2021) regime.

We are busy developing our Member Web to enable members 55+ to exercise this option. Please note that this functionality will **only** be available online.

Allocation of contributions from 1 March 2024

From 1 March 2024, contributions for participating members will be allocated as follows:

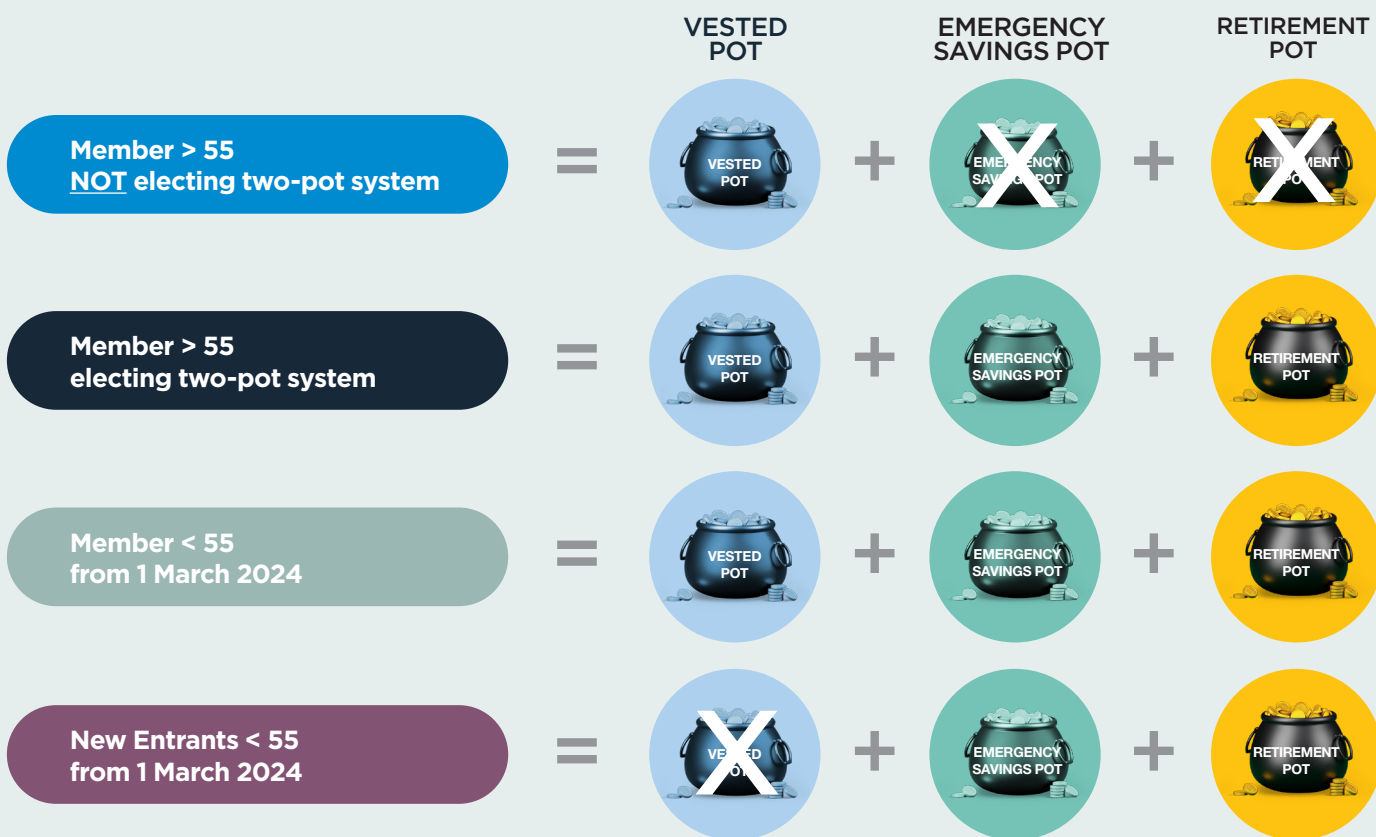
- ④ one third to the emergency savings pot
- ④ two thirds to the retirement pot

Contributions for members 55+ who elect **not** to participate in the two-pot system, will be allocated to the vested pot only.

Please note that February 2024 contributions paid to us by employers in March 2024 will be allocated as per the T-day regime. Similarly, arrear contributions for any period prior to 1 March 2024 will also be allocated as per the T-day regime, even if received after 1 March 2024.

The infographic below explains how contributions will be allocated for each member category:

Member contributions from 1 March 2024 – View of Pots





Transfers into the emergency savings pot on 29 February 2024

The draft Bill proposes that 10% of a member's vested pot on 29 February 2024, up to a maximum of R25 000, must be transferred (or seeded) into their emergency savings pot. This will ensure that a reasonable amount is available for a member's first annual withdrawal from the emergency savings pot. After seeding, the emergency savings pot will grow with the 1/3rd allocation of Fund contributions plus investment returns.



The seeding transfer will be an automatic bulk process on 29 February 2024. Please note that the following members are **excluded** from this process.

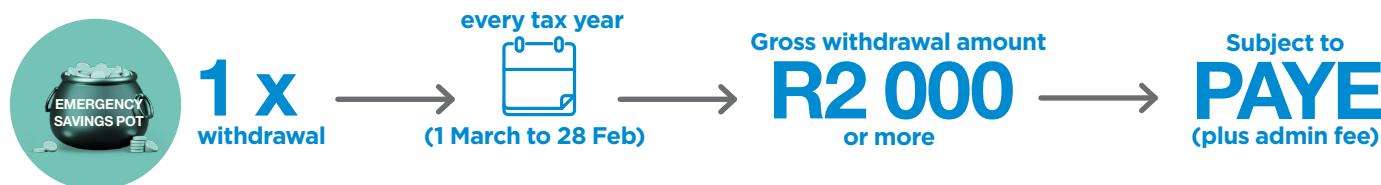
- ⌵ Unclaimed members
- ⌵ Pensioners
- ⌵ Deferred pensioners, i.e. members who have already retired but who have not yet elected to receive their retirement benefit
- ⌵ Members with a pending claim status on 29 February 2024
- ⌵ Beneficiary fund members
- ⌵ Non-contributing members of terminating funds and funds in liquidation





Annual withdrawals from the emergency savings pot

Members who have a savings pot can make one withdrawal from this pot once every tax year (1 March to 28 February). The gross withdrawal amount must be R2 000 or more. The net amount withdrawn may be smaller than R2 000 once tax and the administration fee (payable by the member) have been deducted. Withdrawals from the savings pot will be subject to employees' tax (PAYE).



Annual withdrawals from the emergency pot is a new process and we are still grappling with the following challenges:

Should withdrawal requests be made via the Employer or can members submit them directly to the Administrator? If the member is allowed to submit a payment request directly to the Administrator, we have no doubt that less informed members will be exploited by scammers (as seen with unclaimed benefits previously) and that the risk of fraudulent claims will increase exponentially. We may be forced to implement a rule where we only pay withdrawals into the salary bank account of the member as provided by the Employer.

Dealing with high withdrawal volumes in the months after 1 March 2024. We will automate the processing of withdrawals as far as possible to efficiently deal with the additional workload. This will mean that applications for cash withdrawals can only be made online via the Member App/portal and/or SC Broker (Employer) Portal for Employers. A further challenge is that we will be required to apply for a tax directive for each withdrawal.

Up-to-date member information is critical

In terms of the Conduct Standard for Contributions that came into effect earlier this year, employers are required to update fund member information. This requirement will become even more important as **members must register on the Member Portal** as part of the validation process for a cash withdrawal.

We need your help!

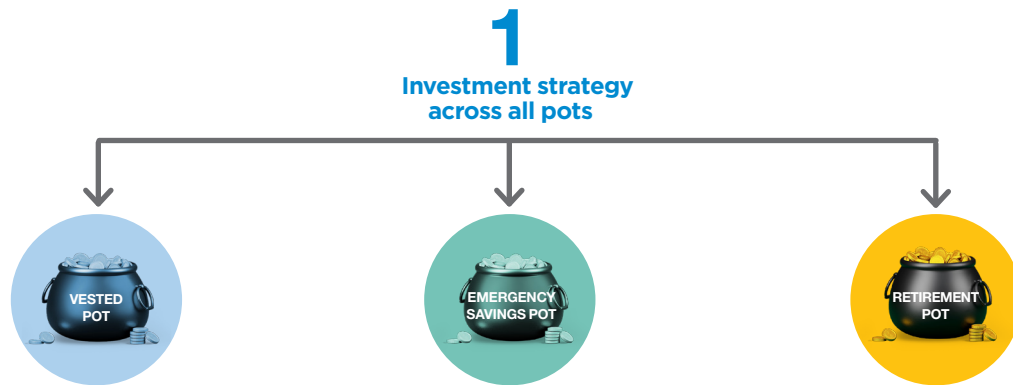
The table below sets out the information we need to implement an efficient withdrawal process. Please adhere to these requirements when updating member information.

We need this member information	Why we need it
Cell phone and/or email address	We will send the member an OTP confirmation as part of the withdrawal request process
Tax number	We need this to apply for a tax directive
Correct ID Number	This is part of the bank account validation process
Update any surname changes where a member has changed their marital status	This is part of the bank account validation process
Notice of potential Section 37D deductions	We can refuse a cash withdrawal if the employer's right to claim payment from the member's Fund Credit will be compromised



Different investment strategies for different pots

A topical issue is whether to allow different investment strategies for the vested, emergency savings and retirement pots respectively and if this should include member choice. While we have taken note of the views from industry stakeholders, in order to meet the functionality required to administer the two-pot system from 1 March 2024, members will be restricted to one investment strategy across all pots. Boards of Funds must therefore ensure that their portfolios cater for enough liquidity to allow for cash withdrawals from members' emergency savings pot.



Due to the differing views of stakeholders, we have taken a cautious approach in developing this functionality and will be engaging with clients for more input.

Transferring benefits between pots (intra-Fund transfers)

The draft Bill makes provision for members to move Fund Credit from their emergency savings or vested pot into their retirement pot. This is a new process and will only be available on the Member Portal/App and/or SC Broker (Employer) Portal for Employers.





Defined benefit funds

The draft Bill includes defined benefit (DB) funds in the two-pot system. DB funds will be required to calculate the one-third contribution to the emergency savings pot with reference to one-third of the member's pensionable service. The two-thirds contribution to the retirement pot must be calculated with reference to two-thirds of the member's pensionable service with effect from 1 March 2024. Seed capital for the emergency savings pot must be calculated in the same manner and can be accommodated with a past service adjustment.

We expect several administrative complexities and inefficiencies as well as a significant cost increase in delivering administration services in terms of this proposal, both from an actuarial and administration perspective for the following reasons:



- ④ The Actuary will have to calculate the seeding capital to be allocated to the emergency savings pot on 1 March 2024, which is a compulsory event. The Administrator will have to keep a record of the value of the seeding capital;



- ④ We are unsure how the allocation of contributions between the retirement pot and emergency savings pot will be dealt with. The Actuary may have to calculate the allocation with each contribution cycle;



- ④ An actuarial calculation will be required to determine the value in the emergency savings pot with each annual cash withdrawal from this pot;



- ④ Each Fund withdrawal, whether it is a resignation or retirement, must make provision for the determination of the value of the vested, emergency savings and retirement pots.

In light of these complexities and where possible, it may be appropriate for DB fund clients to convert the benefits of DB contributing members before 1 March 2024 into a defined contribution (DC) arrangement.

In our next newsletter...

Members currently have a couple of options when terminating (resignation or retirement) employment with their employer. Members can take their benefit or part thereof in cash, preserve it in or outside of the fund or purchase an annuity. These options now apply to each of the vested, savings and retirement pots.

Example:

- ④ The savings pot can be transferred to another savings pot in another fund; or
- ④ It can be left in the current fund as paid-up; or
- ④ It can be transferred to the retirement pot; or
- ④ It can be withdrawn, provided the member has not made a withdrawal in the preceding 12 months.

The challenge is to make it administratively as easy and straightforward as possible for members to make these decisions.

A member's options at retirement are equally complex. In our next newsletter we will unpack the retirement options available to members in the context of the two-pot system.



Contact us

We hope you found the information in this newsletter informative.

Please feel free to contact us at: 2pot.sc@sanlam.co.za should you have questions or ideas to share with us.