

JSE PENSION FUND

Two Pot system Communique - Frequently asked questions

The purpose of this communique is to provide information (not advice) on the Two Pot System to be implemented from 1 September 2024 subject to the Financial Sector Conduct Authority (FSCA) registering the fund's already submitted rule amendment in respect of the new system.

This document serves as an adjunct to the presentation made on 22 July 2024 by Robson Savage as requested by JSE HR. It is a first of a communique series (if necessary) to answer the main questions asked about the Two Pot system. JSE HR will collate additional questions for Robson Savage to respond to in due course in a subsequent communique. The questions below will focus on most frequent questions from defined contribution pension fund members like the members of the JSE Pension Fund.

Before we begin, take note: when talking about "contributions" below we are referring to total fund contributions less any costs for insurance premiums and fund expenses. In addition, when referring to investment growth it is that growth less any investment fees.

Q-What is the two pot system?

A- It is a system that permits additional options and additional constraints when accessing pension, provident and retirement annuity fund benefits.

Q-Why was it created?

A- It was created to address TWO objectives considered important by government in terms of long term societal needs.

The first objective is to introduce compulsory preservation on a portion (two thirds) of NEW contributions only plus investment growth thereon from 1 September 2024 onwards.

The second objective is to permit an annual option (per tax year) to withdraw a portion (one third) of NEW contributions only plus investment growth thereon from 1 September 2024 onwards. The intention of this option is to allow emergency access to retirement savings that previously would not have been possible unless one exited the fund by leaving employment.

Q-What happens to the OLD contributions and investment growth thereon?

A- All the contributions made up to and including the month of August 2024 and growth thereon are SEPARATED from the Two Pot system. They are in effect PROTECTED from the rules of this new system.

Q-Does my savings benefit (the FUND CREDIT) in the fund change?

A-NO. However, the FUND CREDIT is split into an OLD part and into two NEW parts such that it is possible to administer benefit payments to cater for the Two Pot system and the OLD way in which benefit payments could be made.

Q-What are these parts called?

A-The OLD part is called the Vested Component (VC).

The two NEW parts are called the Savings Component (SC) and the Retirement Component (RC).

Q-What is important to know about the Vested Component?

A- A small fraction (at most 10%) of the VC value at 31 August 2024 will be put into the SC on 1 September 2024. THIS IS THE ONCE OFF "SEEDING" EVENT OF THE SC FROM THE VC AND WILL NOT OCCUR AGAIN. The VC will not grow with contributions from the payroll month of September 2024 onwards. It will continue to change in value with only the investment growth rate. The full value of the VC can be paid net of tax to you or transferred to another fund when leaving your employer and leaving the fund.

Q-What is important to know about the Retirement Component?

A- The **RC** receives two thirds of contributions from the September 2024 payroll month onwards. It will have the same investment growth rate applied to it as is applied to the other components.

The **RC** will normally only be received as a benefit at retirement and all of it will be transferred to a registered insurer or fund to provide you with a pension. The **RC** can be paid as part of a death benefit or a pro rata portion of a fund credit used to make a payment in respect of a divorce or maintenance order, or debt to the employer or in respect of a home loan linked to the fund. The **RC** may be paid to you if certain emigration conditions are met. The **RC cannot** be paid to you, your beneficiaries or allowed debt providers BEFORE retirement other than upon the criteria mentioned in the previous sentence.

Q-What is important to know about the Savings Component?

A- The **SC** receives a ONCE OFF amount from the **VC** at 1 September 2024 that is the LOWER of 10% of the FUND CREDIT balance at 31 August 2024 or R30,000. The **SC** receives one third of contributions from the September 2024 payroll month onwards. It will have the same investment growth rate applied to it as is applied to the other components. As for the **RC**, the **SC** can be paid as part of a death benefit or a pro rata portion of a fund credit used to make a payment in respect of a divorce or maintenance order, or debt to the employer or in respect of a home loan linked to the fund.

IT IS NOT COMPULSORY TO MAKE A **SC** WITHDRAWAL. IT IS OPTIONAL. IT IS ENCOURAGED THAT FINANCIAL ADVICE IS SOUGHT WHEN CONSIDERING THIS OPTION. IT CAN HAVE A SIGNIFICANT IMPACT ON FINANCIAL PLANS.

Upon instruction to the administrator but with all the necessary details provided, a portion of or all of the **SC**, will be paid to SARS **first** and then the difference to you if certain **conditions** are met. Tax is payable on the gross amount withdrawn at your marginal income tax rate plus any outstanding amount that you may owe SARS. Each withdrawal from the **SC** attracts an administration fee deducted from the **SC**.

Q-What are the main **conditions that need to be met such that the fund's administrator can make a savings component payment?**

- The fund's submitted Two Pot system rule amendment is registered by FSCA and SARS' systems can process tax calculations in respect of the Two Pot system.
- You inform the fund that you are not aware of being subject to a divorce or maintenance order.
- You have not made a previous **SC** withdrawal in the tax year & the **SC** is at least R2,000.00 in value. (The only time it can be paid if it is less than R2,000.00 and even if you have made a prior withdrawal in the same year is if you are exiting the fund.)
- You have provided valid information to the administrator in terms of your banking and tax details requested.
- The fund's administration process to disinvest money from your investment portfolio/s on a pro rata basis from the fund is complete, ie money has been received from the fund's investment portfolio providers into the fund's bank account such that a payment can be made.
- There are no payment process conflicts that need to be resolved by the banking system or SARS.
- The fund's administrators have completed all necessary pre-requisite processes.