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COLUMBUS RETIREMENT FUND

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Two-Pot Component information

It is very important that you are aware of the new changes to legislation and your benefits in the new Two-Pot Retirement system effective 1 September 2024 and how this will affect your benefits.

The two-pot system implementation date is 1 September 2024. The system is part of the retirement reform process and essentially introduces three components within an existing retirement fund and two components for new funds starting after the implementation date.

Retirement fund structure pre-1 September 2024

Retirement Fund:

- Contributions – Into the Fund tax deductible
- Investments – Regulation 28: Asset class parameters class
- Tax in the Fund – No income tax, dividends withholding tax or capital gains tax
- Divorce – Pension interest can be split between spouses
- Creditor protection – Cannot be ceded, assigned, pledged and is protected against creditors
- Estate duty – No estate duty payable on retirement benefits

  - Pre-retirement access – No access other than those listed below:
  - Resignation – Full access possible, taxed as a withdrawal
  - Death before retirement – Death benefit payable to depndants/nominees
  - Retirement – Maximum 1/3rd as a lump sum unless vested benefit applies. Vested benefit fully accessible. 2/3rd or remaining funds to purchase a compulsory annuity subject to *de minimis (R165 000),* a full withdrawal from the fund is possible. (Subject to previous withdrawals)

Post – 1 September 2024 (What changed)

Retirement Fund:

- Contributions – Tax deductible
- 1/3rd to savings component
- 2/3rds to retirement component
- Three Components – Savings component (Seeding capital), vested component (Seeding capital) and Retirement component
  - Savings component – Seeding capital is lesser of: R30 000 or 10% of vested component. PLUS 1/3rd of contribution (Annual access: Min withdrawal R2 000, Max withdrawal – 100%, Taxed as part of gross income at marginal tax rate
  - Vested component – Total benefit in existing fund on 31 August 2024. The old rules will apply. No new contributions
  - Retirement component – Value: No value on 1 September 2024, 2/3rds of contributions. No access until death or retirement.

Withdrawal information

- Resignation (Savings component):
  - One annual withdrawal can be made.
  - Withdrawal will be possible on resignation if the value in the savings component is < R2 000.
  - Fully taxable as gross income
- Resignation (Vested component):
  - Full accessible upon resignation
  - Taxed in terms of withdrawal tax table
- Retirement (Savings component):
  - Can withdraw as a lumpsum or transfer to the retirement component.
  - Lumpsum taxed in terms of the retirement tax table
- Retirement (Vested component):
  - Old Rules apply
  - Max 1/3rd as a lump sum.
  - Exception: Vested benefit remains fully accessible
  - 2/3rds or remaining funds transferred to retirement component
- Retirement (Retirement component):
  - Only used to purchase compulsory annuity
  - *De miminis* – if 1/3rd of vested benefit PLUS retirement benefit is less than R165 000.

There are members thinking about leaving their fund prior to the implementation date to 'protect' their benefits against the new system – probably due to a perceived threat to their existing retirement benefits. This may entail formal resignation from their employer to gain access to the funds, which can have far reaching unintended consequences. The following points should be considered if this option is being considered:

- There is no change to retirement fund benefits that accumulated up until 1 September 2024. This is why the vested component is being created – to retain the 'old rules' on the funds in that component.
  - The only minor change is the seeding capital (10% of your benefit with a maximum of R30 000) that will be transferred to the savings component.
  - A member is not obliged to make use of the annual withdrawals allowed from the savings component, and therefore it can remain in the fund until retirement without any negative consequence.
- If a member resigns from his employer at any time in the future, the funds that accumulated up until 1 September 2024 will remain fully accessible.
  - The vested component will remain fully accessible as it was prior to 1 September 2024.
- The withdrawal from the vested component will be taxed in terms of the withdrawal tax table which is exactly the same as before.
  - The savings component will be accessible if no previous withdrawal was made during that year (or if the remaining value is less than R2 000 a second withdrawal will be possible).

- The savings component withdrawal will be taxed as part of gross income at the marginal tax rate – this is higher than before. That is the price being paid for full accessibility and should act as a deterrent when considering making a withdrawal.
    - Using the savings withdrawal benefit will have a negative impact on the future retirement benefits available and should not be done without considering the real cost.
- By resigning prior to the implementation date, the only difference will be the tax consequence in respect of the withdrawal from the savings component (which is limited to the lesser of 10% of the fund value or
  R30 000).
    - This is a very small difference – not necessarily a driving force to resign.
    - When a member resigns to access their retirement benefits, the employer may not necessarily re-employ them. It can have life changing consequences.

To capitalize on the power of the compounding effect, it's essential for members to save and remain invested for the longest term possible. Tapping into any portion of savings prior to retirement will impact long term retirement preservation and should only be exercised as a last resort and be reserved for emergencies.

The reason for the introduction of the new regime is two-fold:

- It is firstly to ensure a certain level of preservation, even when a member of a retirement fund resigns from employment. Therefore, full access upon resignation will no longer be possible.
- The second is to provide for limited access to funds on an annual basis. The two-pot system is therefore an attempt to provide the best of both worlds, whilst aiming to secure a better retirement outcome.

It is important to note that the new rules will only apply in respect of new contributions and growth accumulated in the retirement fund after the implementation date.

The three components
The retirement fund will consist of three components. There are certain limited exclusions – mostly in respect of legacy retirement annuity products.

Your underlying interest will be split into the components on 1 September 2024.

The three components are:
- The vested component
- The savings component
- The retirement component

The vested component
The member's interest in the retirement fund on 31 August 2024 will be known as the member's vested component. This component will essentially remain subject to the 'old' rules. The vested component can include vested benefits arising from the annuitisation of provident funds, plus growth, as well as non-vested benefits that accumulated after the implementation of provident fund annuitisation (1 March 2021). One should not confuse the vested component with the vested benefit that arose due to provident fund annuitistation.

The vested component will remain accessible as follows:

- Full accessibility upon resignation or retrenchment from an employer,
- One withdrawal from a preservation fund prior to retirement,
- Upon retirement:
    - Full access to the vested benefit (if applicable), plus
    - 1/3 of the non-vested benefit.

No other contributions can be made into the vested component.

There is one exception. If a member of a provident fund was 55 years or older on 1 March 2021 and that member remained a member of that original provident fund, the full benefit in that fund will be a vested benefit. This member will have the option (to be exercised in 12 months from the implementation date) to opt-in to the new rules. If this member does not opt-in, their vested benefit plus new contributions will remain subject to current rules and they will retain current access rights.

The vested component summarised:

Vested component			
Benefit type	**Consist of**	**Access upon**	
		Resignation	**Retirement**
Vested benefit (provident fund vested benefit)	The vested benefit that was ring-fenced effective from 1 March 2021 PLUS all future growth. If a member was 55 or older on 1 March 2021, and they are in the same fund, their entire benefit is a vested benefit PLUS all new contributions PLUS all future growth.	Can access the full benefit	Can access the full benefit
Non-vested benefit and other fund benefits	Member's interest in the retirement fund (excluding vested benefit) plus contributions up until 31 August 2024 PLUS all future growth. No future contributions into the vested component, except for provident fund member who was 55 yrs or older on 1 March 2021.	Can access the full benefit	Maximum of one-third is accessible as a lump sum. Exception: *de minimis* (Currently R165 000)

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The Savings Component
This is the component that will allow a member limited annual accessibility prior to retirement.

This component will consist of:
- The 'seeding' amount, AND
- One third of all new contributions made to the fund after implementation, PLUS
- All future growth.

The seeding amount will be equal to the lesser of:
- 10% of a member's total value in the vested component, or
- R30 000.

The initial draft legislation determined that the seeding limitation applies per fund and not per contract/policy, however, the most recent draft has changed this to apply per contract/policy.

Members will be able to access the savings withdrawal benefit from the savings component once during the tax year, with a minimum withdrawal of R2 000 up to 100% of the value in the savings component.

Members will be able to make withdrawals from the savings component in each separate contract in one single fund. Therefore, if a member for example has multiple retirement annuity policies within the same retirement fund, the member will be able to make a withdrawal from each retirement annuity policy's savings component during the tax year.

The savings withdrawal benefit made from the savings component will be fully taxable at the member's marginal tax rate. It forms part of the member's gross income. As a result, it will not be taxed using the withdrawal tax table and therefore no tax-free portion applies, no aggregation will apply in respect of previous lump sums received, and disallowed contributions will not be offset against this amount when determining the taxable lump sum.

Upon resignation
When a member resigns from the retirement fund prior to retirement, and:
- The member has not taken a savings withdrawal benefit during that tax year, the full amount in this component can be withdrawn as a lump sum, or
- The member has taken a savings withdrawal benefit during the tax year, and the remaining funds in the component is less than R2 000, the member will be able to make another withdrawal, or
- The member has taken a savings withdrawal benefit during the tax year and the remaining funds in the component is more than R2 000, no further withdrawal will be possible and the member will either have to leave the savings component with the fund or transfer it to another approved fund.

The marginal tax rate will still applies – the withdrawal tax table will not apply.

Upon retirement

When a member retires, the member will be able to:

- Withdraw the full amount in the savings component as a lump sum, or
- Transfer it to the retirement component to be used to fund an annuity, or
- A combination thereof.

When a withdrawal is made from the savings component at retirement, the retirement lump sum tax table will apply.

The savings component summarised:

<table>
<tr><th rowspan="2">Consists of</th><th colspan="3">Access upon</th></tr>
<tr><th>Pre-retirement</th><th>Resignation</th><th>Retirement</th></tr>
<tr><td>Seeding capital on date of implementation is equal to the lesser of:
– 10% of vested component,
or
– R30 000</td><td rowspan="2">One savings withdrawal per tax year – 1 March to 28 February.
Minimum of R2 000 (after the deduction of tax and costs) up to 100% of value.

Taxed at marginal tax rate</td><td rowspan="2">Fully accessible unless previous withdrawal was made during that tax year.
If previous withdrawal was made and value is < than R2 000, another withdrawal is possible. If the remaining funds is > R2 000, no further withdrawal can be made

Taxed at marginal tax rate</td><td rowspan="2">Access:
Lump sum, or
Transfer to retirement component to be used to purchase an annuity, or
Combination.

Lump sum taxed At the retirement tax table</td></tr>
<tr><td>1/3 of all contributions after Implementation plus growth PLUS growth</td></tr>
</table>

Note – no saving withdrawal benefit will be taken into consideration for accumulation purposes when a member resigns or retires. Only retirement fund lump sums that were taxed in terms of one of the retirement fund tax tables will accumulate over time.

The Retirement Component

This component is made up of two thirds of the contributions made to the retirement fund after the implementation date plus future growth. No access is allowed prior to retirement, except on the cessation of SA tax residency or the cessation of a visa.

When a member reaches retirement, the full retirement component must be used to purchase one or more compulsory annuity/ies, subject to the de minimis rule.

At retirement, the member may transfer the savings and/or vested component to the retirement component to purchase a compulsory annuity.

The Retirement Component summarised:

Consists of	Access upon		
	Pre-retirement	**Resignation**	**Retirement**
2/3rds of all contributions after implementation plus growth	No access allowed. Exception: Cessation of tax residency or the cessation of a VISA.	No access allowed. Can only be transferred to another approved fund.	No access and has to be applied to purchase an annuity. Exception: *de minimis*

De minimis

At retirement, the vested and retirement components will be fully accessible as a lump sum if:

- 2/3rds of the non-vested benefit in the vested component, plus
- the full value in the retirement component,
- is jointly less than R165 000.

This will still apply on fund level and not on contract level. The savings component is fully accessible as a lump sum at retirement, irrespective of the above limitations being met.
Lump sums received at retirement will be taxed in terms of the retirement tax table.

Transfers

A member will only be able to transfer from one retirement fund to another if all components are transferred to the same retirement fund.

Tax-free transfers will also be possible from the vested component to the retirement component and also from the savings component to the retirement component within the same fund.

Access due to the cessation of residency of visa

Access to retirement fund benefits prior to retirement due to the cessation of SA tax residency or the expiry of a visa will mostly remain unchanged.

When a member ceases to be a SA tax resident, the following will apply:

- The savings component may be accessible if no previous withdrawal was taken during that tax year. If a withdrawal was made during the tax year, no withdrawal will be possible until the following tax year.
    - It may be, that if a member waits for the 3-year period to access the savings component that it will be taxed along with the other components in terms of the withdrawal tax table, but this must still be clarified.
- The vested and retirement component will only be accessible after 3 years from the date on which tax residency ceased.

Divorce orders

When a divorce order is issued against a fund, the order will apply in respect of the pension interest in the fund.

Death benefits

When a member dies, the provisions contained in section 37C will continue to apply and the death benefit will comprise of all three components.