



**COLUMBUS
RETIREMENT
FUND**

What is the Two-Pot Retirement System?

The South African Government is attempting, by the implementation of the Two-Pot Retirement System to provide financial relief to its citizens in times of financial distress. The proposed implementation date is **1 September 2024**.

The Two-Pot Retirement System enables a member of a Pension, Provident, Retirement Annuity or Preservation Fund to access a small portion of their retirement savings before retirement in case of emergencies. The bulk of your savings will remain invested until you retire.

How will the Two-Pot Retirement System work?

Your retirement benefits will be split into three components: a retirement component, a savings component, and a vested component.



VESTED COMPONENT

Existing benefits

All existing investments plus future investment growth will remain under current fund rules.

10% to maximum of R30 000 transferred to savings component on 1 September 2024.

**All retirement savings on
31 August 2024**



RETIREMENT COMPONENT

Two-thirds of future contributions.

Used to purchase a pension income at retirement.

Cannot withdraw from this component unless retiring or value at retirement is less than R165 000.

All contributions from 1 September 2024



SAVINGS COMPONENT

Seeded once-off from vested component plus one-third of future contributions

Before retirement one withdrawal per tax year is allowed.

Minimum withdrawal of R 2000 allowed.

At retirement full balance becomes accessible.

Withdrawals are taxed at marginal rate of person, not pension fund rate, therefore more tax payable.

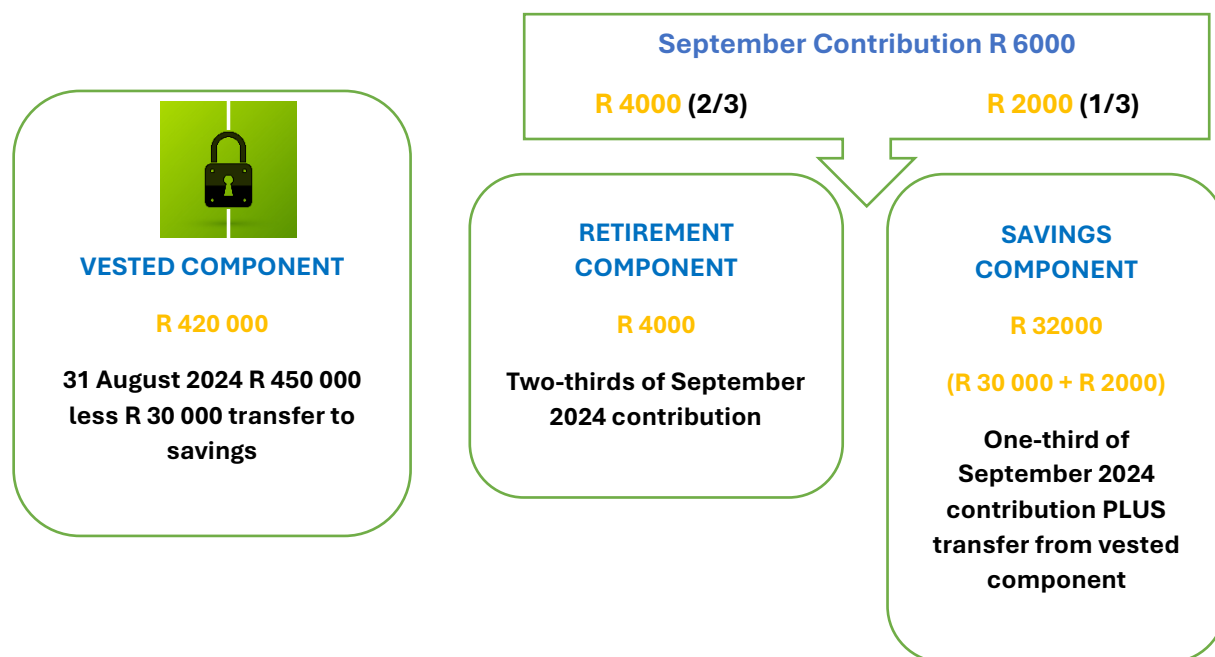

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Example of application of the Two-pot system for retirement fund member.

Ata Bokang is 40 years old and has contributed to her current employer pension fund for the past 10 years. She made no withdrawals from her pension fund when she moved between employers.

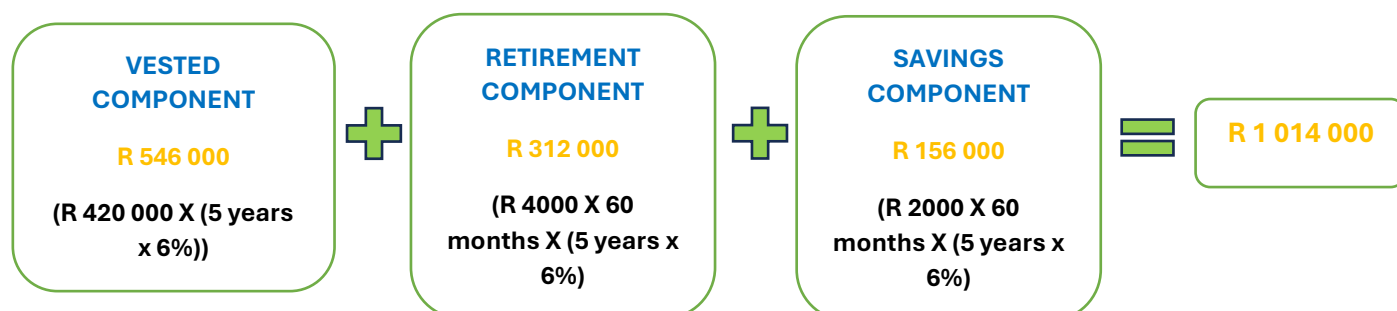
On 31 August 2024 her investment balance is R 450 000, and her monthly net contribution is R 6000. On 1 September, R30 000 ($R\ 450\ 000 \times 10\% = R\ 45\ 000$ but capped at R 30 000) is transferred to her savings component for immediate access. Her September 2024 contribution will be split: R 2000 into the savings component and R 4000 into the retirement component.

From 1 September 2024, Ata Bokang's investment value will look like this:



Ata Bokang's investment value in 5 years' time may look like this:

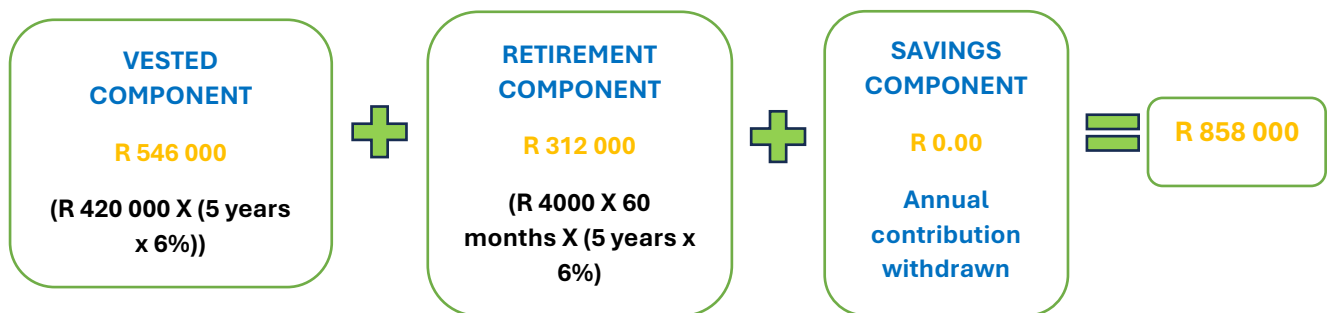
Ata remained in the same fund and continued to contribute the same amount monthly for 5 years from the implementation date of 1 September 2024. Her current annual salary is R 237 000. If we assume no salary increase and an inflation related return of 6% per annum, the respective components would have grown as shown below:



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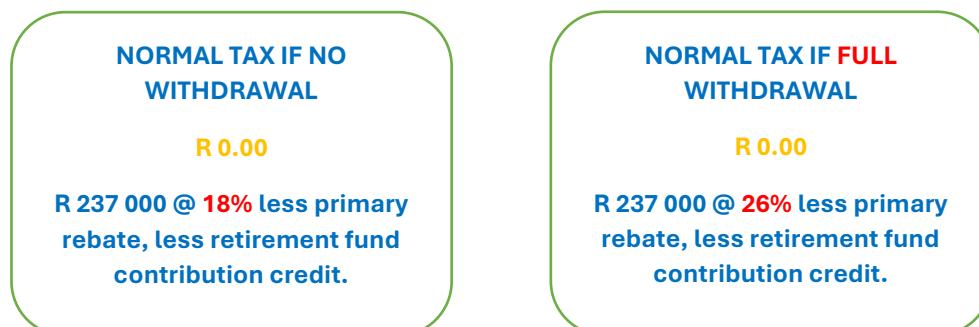
What if Ata Bokang decided to withdraw the maximum amount annually from the savings pot?

Ata remained in the same fund and continued to contribute the same amount monthly for 5 years from the implementation date of 1 September 2024. Her current annual salary is R 237 000. She decided to withdraw the maximum benefit from the savings pot each year during the 5 years. If we assume no change in her salary and an inflation related return of 6% per annum, no change in tax rates and that Ata receives no additional income from other sources, and that there are no further changes to the retirement fund legislation, the respective components would have grown as shown below:



Tax Implication

Ata will have R 156 000 less invested after 5 years towards her retirement, Ata would also go into a higher tax bracket, however because her pension fund contribution credit is still greater than the withdrawal benefit, she will pay no additional income tax





Ata's savings component value available for withdrawal

SAVINGS COMPONENT

R 25 440

Annual contribution
withdrawn

(R 2000 x 12 mnts x 6% p/y)

Further information for members

The Two-pot system despite its name, consists of three components: Pot 1 - Retirement, Pot 2 – Savings & Pot 3 – Vested.

Retirement Component: These are contributions saved after 1 September 2024 for retirement and can only be accessed at retirement.

Savings Component: This component is more flexible. You will be allowed to withdraw from this prior to retirement.

Vested Component:

All the savings that accumulated in your retirement fund until 31 August 2024. These retirement savings will continue to be regulated in terms of the rules that applied until 1 September 2024. Where applicable, your vested and non-vested rights or portions, as of 31 August 2024 will form part of the vested component.

Existing members do not have to take any action

Funds will accommodate the changes required for the Two-pot retirement system, which includes changing the Fund rules.

Can I access my savings component from 1 September 2024?

Yes, it is allowed according to Legislation, however, keep in mind the limits on the amount and the number of times you can withdraw. The exact date you can make your first withdrawal is dependent on the retirement fund you are a member of.

Your vested component will provide initial capital for your savings component. 10% of your fund balance on 31 August 2024 (capped at R30 000) will be allocated to your savings component. You need a balance of at least R2 000 before you can make a withdrawal.



What if I am retrenched; what can I withdraw?

For Pension and Provident Fund, all savings in your vested component plus your accumulated savings in your savings component may be withdrawn. For Retirement Annuities, only your savings component may be withdrawn.

Why will I pay tax if I withdraw from my savings component?

If withdrawing from your savings pot, SARS will calculate this as part of your normal annual gross income (such as salary, interest, bonus or commission) and not recognize it as part of your lifetime tax free Pension fund withdrawal, currently valued at R 550 000. So instead of possibly paying 0% income tax, **you may now pay either 18%, 26%, 36% or 45% tax**, depending on your gross annual income.

Does it matter how old I am?

Yes, Provident fund members who were 55 years or older on 1 March 2021 have a choice to: Contribute to the vested component (until you retire or leave the fund) or Participate in the two-pot system and split all new contributions between savings and retirement components. You will then no longer be able to contribute to the vested component.

Legacy Retirement Annuities

Your RA will be exempt from the two-pot retirement system if it is a legacy policy that conforms to specific characteristics in the draft legislation. Contact the fund for further information.

Conclusion

Members are urged to seek financial advice before withdrawing any benefits from their Funds as these withdrawals will deplete the funds at retirement. The withdrawals should only be made under circumstances of extreme financial distress.