



## Two-pot retirement system – initial funding of the savings component

*Kindly note this content is based on the Revenue Laws Amendment Act 12 of 2024, the Draft Revenue Laws Amendment Bill of 2024 and the Pension Laws Amendment Bill of 2024, read together.*

A savings withdrawal benefit from the saving component is referred to as a SWB.

### The two-pot system

The two-pot system, effective 1 September (herein after referred to as the effective date) applies to retirement annuity funds, preservation provident/pension funds and provident/pension funds. A member's investment in the Fund may consist of up to three components, where applicable. These include a vested, savings and retirement component.

<b>Retirement component</b>	The purpose of this component is to save for retirement, therefore withdrawals before retirement are not allowed, except in special circumstances explained within this document.
<b>Savings component</b>	This component provides members with access to a portion of their retirement savings before retirement, to help in cases of emergency. Withdrawals are allowed once per tax year, subject to conditions.
<b>Vested component</b>	If this investment is funded by a provident/provident preservation fund it will have vested and/or non-vested rights. This impacts the access options available at retirement. This component will consist of vested and non-vested benefits, if applicable, and will retain their pre-September 2024 rules.

### Membership to a Fund

A member can have multiple contracts within a single membership of a Fund. For example, they can have Retirement Annuity 1, Retirement Annuity 2 and Retirement Annuity 3, which would mean they have three contracts, but only one membership in the Personal Portfolios Retirement Annuity Fund.

As a result of the two-pot system a member could potentially have up to three different components within one contract. Each component can have multiple underlying investment options.

## Seeding overview and calculation

After the effective date, the vested component is reduced by a once-off amount referred to as the 'seeding amount'. This once-off amount reduces the vested and non-vested rights in the vested component proportionately and is allocated to a new savings component, as the starting value for the savings component. This process is referred to as 'seeding'. This once-off amount (or 'seeding amount') allocated is calculated as 10% of the value of the retirement interest on the 31<sup>st</sup> of August 2024, capped at R30 000.

This allocation of the once-off amount is made irrespective of previous withdrawals from the Fund or restrictions.

## Compulsory allocation of the once-off amount

The allocation of the once-off amount to the savings component is compulsory and is automatically applied to all retirement fund members. A member will only be impacted if they decide to withdraw their once-off allocated amount from their savings component. However, members are not required to withdraw this amount. If members don't withdraw it, the once-off amount will remain in their savings component and continue to benefit from investment growth.

The compulsory allocation excludes provident and provident preservation fund members who were aged 55 or older on 1 March 2021, and remained a member of the same fund, unless they have chosen to participate in the two-pot system. These members have 12 months, from the effective date, to choose to participate in the two-pot system. For those who choose to participate, the once-off amount allocated is calculated as 10% of the value of the retirement interest on 31 August 2024, capped at R30 000. Should a member wish to participate in the two-pot system he/she must complete the option form which was shared with them in the communication regarding optional participation for members aged 55 or older on 1 March 2021.

## Contract level

Each contract within a member's fund membership will have up to three components. The allocation of the once-off amount from the vested component to the savings component is applied at a [contract level](#). Where a member has more than one contract in the fund, a once-off amount ('seeding amount') is allocated to the savings component for each separate contract within the fund.

## Seeding and investment strategies

Each component can have different investment strategies/options. After the once-off allocation, members have the option to choose different investment funds in the savings component by performing a switch.

At the effective date the savings component is initially allocated the once-off amount with the same fund allocation as the vested component.

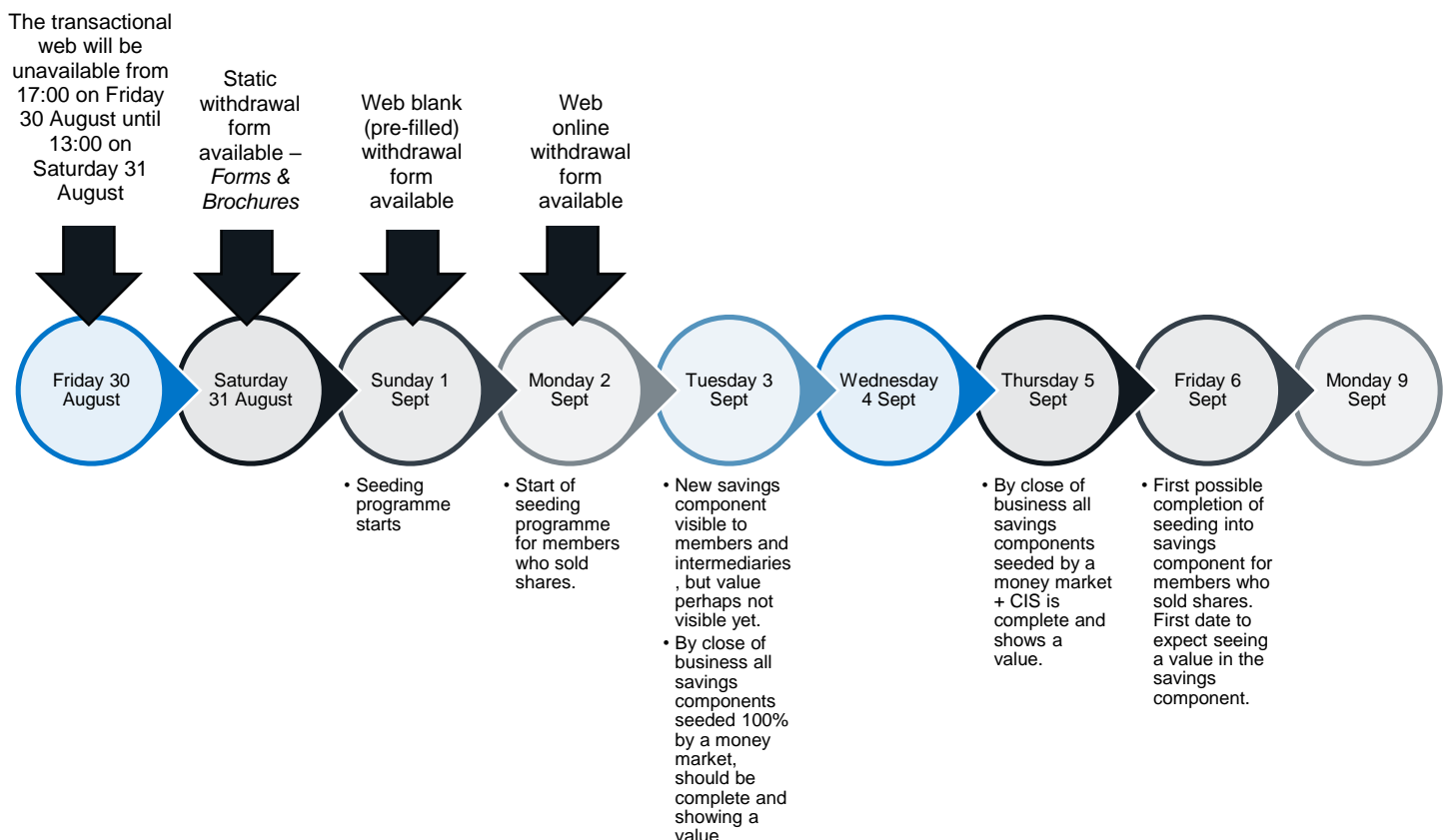
If a member's vested component comprises a share portfolio, the value of the share portfolio is allowed for in the calculation of the once-off amount allocated to their savings component (i.e. 10% of the vested component value on 31 Aug 2024, capped at R30 000). However, the once-off amount allocated from the vested component is first funded from the collective investment funds available. If the value in the collective investment fund(s) is not enough to cover the amount allocated to the savings component, the balance is funded by selling shares from the share portfolio. The sale of shares depends on if a member has a discretionary mandate (we instruct the portfolio manager to sell shares) or a non-discretionary mandate (the member provides the instruction to the portfolio manager). If not provided by the communicated date, we instruct on the member's behalf.

The proceeds from the sale of shares are placed in a money market fund (or appropriate Shariah-compliant income fund) in the member's vested component. If a money market fund is not part of their vested component, the funds are placed in the Glacier Money Market fund in their vested component. The savings component is then funded from the money market fund in their vested component, together with the funding from the collective investment funds, to make up the full once-off amount allocated to the savings component.

A share portfolio investment option must still comply with the required minimums i.e. the secondary minima of R250 000. If the member is **only** invested in shares before the two-pot system, the below applies from the effective date:

- The vested component is invested in shares and the savings component, with a R30 000 maximum value, is invested in the money market fund.
- Where the savings component value remains below R250 000, the savings component will remain invested in the money market fund.
- The member, however, can switch out of the money market fund to a collective investment fund.
- Where the savings component value is above R250 000, the member can switch out of the money market fund to a share portfolio.

## Seeding timeline & SWB implication at 01/09/2024



*\*If a member has transactions in progress on the effective date, there will be a delay in the allocation of the once-off amount ('seeding'). Checks will be performed daily for the first two weeks to identify contracts with transactions in progress causing delays. These transactions include, amongst others, investment fund switches/ rebalances, pending debit orders etc.*

## IHUB screens after seeding is complete

Once the seeding has taken place, the breakdown of a member's fund can be viewed at an overall contract ("Group") level.

The investment options for the vested component and the investment options for the savings component, will now be shown separately with the respective component label.

In the example screen below, post the 'seeding', the member in the preservation fund will have the following: a vested component (non-vested rights) and a savings component (the once-off amount allocated from the vested component to the savings component as the starting value). The starting value on 1 September 2024 in the savings component below is calculated and equal to 10% of the vested component value on 31 August 2024, capped at R30 000.

The screenshot displays the Glacier IHUB interface for a member named Peter S Parker, showing an investment plan with a total value of R500,000.00. The interface is divided into several sections:

- Client Information:** Summary, Client due diligence, Client details, Tax certificates, Paragraph 2(2B), Bank details, Case tracking, Correspondence, Regulation 28.
- Investment Information:** Modify investment, Reports.

The main content area shows the following investment details:

Fund fact sheet	Fund overview	Investment funds ↑	%	Price date	Price (c)	Units	Market value (R/c)
<a href="#">Download</a>	<a href="#">Download</a>	Allan Gray SA Equity - C (0.30%)	100.00	2024-05-02	44 601.54	531.86	237 217.75
<b>Total</b>			<b>100.00</b>				<b>237 217.75</b>

Fund fact sheet	Fund overview	Investment funds ↑	%	Price date	Price (c)	Units	Market value (R/c)
<a href="#">Download</a>	<a href="#">Download</a>	Allan Gray SA Equity - C (0.30%)	100.00	2024-05-02	44 601.54	59.46	26 520.07
<b>Total</b>			<b>100.00</b>				<b>26 520.07</b>