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MIBFA

TWO POT SYSTEM – FREQUENTLY ASKED QUESTIONS

Glossary of terms:

Pots: From 1 September 2024, each member has up to four Pots in the EIPF or MIPF, as applicable:

- **Vested Lump Sum Pot** contains amounts accumulated in a provident fund before 1 September 2024 (and in certain circumstances after 1 September 2024) which may be taken in cash on retirement.
- **Vested Pension Pot** contains amounts accumulated before 31 August 2024, of which a maximum of one-third may be taken in cash on retirement and the balance must be used to purchase a pension.
- **Savings Pot** contains the Two Pot Seeding Amount and one-third of member and employer retirement funding contributions after 1 September 2024, which amount may be withdrawn by members without leaving employment or the Fund.
- **Retirement Pot** contains two-third of member and employer retirement funding contributions after 1 September 2024, which amount must be preserved until retirement (even if the member withdraws from employment and the Fund) and which must be used to purchase a pension on retirement.

Vested rights: A vested right is the protection of a right that existed at a point in time, which would otherwise be lost due to a change in legislation. The following vested rights apply for the members of the Funds:

- The Income Tax Act was changed effective 1 March 2021 so that MIPF members are also required to limit the amount they may take in cash on retirement to one-third of their benefit. This only applies to benefits accumulated after 1 March 2021. MIPF members who were under age 55 on 1 March 2021 retained a vested rights to still take their benefit as at 1 March 2021 (accumulated with investment return after that date) in cash when they retire from the Fund. MIPF members who were over age 55 on 1 March 2021, retained a vested right to take their full benefit in cash when they retire from the Fund. For the MIPF members, these protected amounts are held in each member's Vested Retirement Benefit (which was renamed the Vested Lump Sum Pot with effect from 1 September 2024).
- The Two Pot changes to the Income Tax Act effective 1 September 2024, require a portion of each member's benefits (namely two-thirds of retirement contributions after 1 September 2024 plus investment return thereon) in the EIPF or the MIPF to be preserved until the member retires, i.e. the member cannot take this portion of the benefit in cash even if he or she leaves employment and the Fund. All members will, however, retain a vested right to take their full benefit as at 1 September 2024 (accumulated with investment return after that date) in cash on exit from employment (due to resignation, retrenchment or dismissal) and the Fund. These protected amounts have been held in each member's Vested Lump Sum Pot and Vested Pension Pot with effect from 1 September 2024.
- MIPF members also retain their vested rights on retirement to take the applicable amounts in cash, as set out in the first bullet point above, after the Two Pot changes to the Income Tax Act effective 1 September 2024.

Two Pot system: The system effective from 1 September 2024, where each member's retirement contributions are allocated to different Pots (or Components) in the EIPF and the MIPF. Members are allowed to take the amount in their Saving Pot in cash without leaving employment, subject to tax and various other conditions. The amount in their Retirement Pot must be preserved until the member retires, i.e. the member cannot take this portion of the benefit in cash even if he or she leaves employment and the Fund.

Two Pot Seeding Amount: An initial amount that was transferred from each member's Fund Credit on 1 September 2024 into their Savings Pot. The member may then withdraw this amount in cash (subject to tax and various other conditions) without leaving employment or the Fund. The Seeding Amount was 10% of the member's Fund Credit as at 31 August 2024, subject to a maximum amount of R30 000.

I am a Provident Fund member who was over age 55 on 1 March 2021 – will I lose my rights to take my full benefits in cash on retirement?

No, such members automatically remained under the previous arrangements in place prior to the Two Pot system with the right to take their full benefit in cash on retirement, including all contributions after 1 September 2024. However, they will not have a Savings Pot and are not be permitted to make Savings Pot withdrawals from the MIPF.

These members have the option to move to the new arrangements during the period from 1 September 2024 to 31 August 2025 and to then take Savings Pot withdrawals. A Two Pot Seeding Amount will transferred to the member's Savings Pot and the balance of the member's accumulated benefits up to the date of such an election will retain the rights to be taken fully in cash on retirement and contributions after the date of election will be allocated one-third to the member's Savings Pot and two-thirds to the member's Retirement Pot, as for other members.

I am a Provident Fund member who was over age 55 on 1 March 2021 – can I elect to join the Two Pot system at any time?

No, such members have the option to move to the new arrangements during the period from 1 September 2024 to 31 August 2025. If they do not make such an election by 31 August 2025 they will remain under the previous arrangements in place prior to the Two Pot system, with the right to take their full benefit in cash on retirement, for as long as they remain members of the MIPF. However, they will not have a Savings Pot and are not be permitted to make Savings Pot withdrawals from the MIPF.

Should I take a withdrawal from my Savings Pot as soon as possible?

Savings Pot withdrawals should only be taken when absolutely necessary as this reduces your benefit in the Fund. There is no need to immediately take a Savings Pot withdrawal, as you can do so at any time. Your Savings Pot will continue to grow with contributions (one-third of your member and employer retirement contributions) received each month and with investment returns.

Remember, however, that you can only take one withdrawal in any tax year from 1 March to the end of February the following year. It may be better if you wait until you genuinely require the money for emergencies, such as for unforeseen medical expenses, before deciding to take a withdrawal.

Did all members have a Two Pot Seeding Amount of R30 000 on 1 September 2024?

The initial one-off "seeding amount" to your Savings Pot on 1 September 2024 was 10% of your Fund Credit on 31 August 2024 subject to a maximum of R30 000. Depending on the size of your Fund Credit, your initial Two Pot Seeding Amount may have been less than R30 000. For example, if your full Fund Credit on 31 August 2024 was R250 000, your Two Pot Seeding Amount would have been R25 000 (10% of R250 000, which is less than R30 000). If your full Fund Credit on 31 August 2024 was less than R20 000, your seeding amount was less than R2 000 (10% of R20 000) and you cannot take a Savings Pot withdrawal until your Savings Pot increases to more than R2 000 through the allocation of one-third of your contributions after 1 September 2024 and investment return.

Is R30 000 the maximum Savings Pot withdrawal that I can take?

You are permitted to withdraw part or all of the amount in your Savings Pot. One-third of your member and employer retirement contributions after 1 September 2024 will be allocated to your Savings Pot and the balance in your Savings Pot will grow with the investment returns earned by the Fund. Depending on if, how often, and how much you withdraw, the balance in your Savings Pot could be more than R30 000 in the future.

Will I receive the full amount I withdraw from my Savings Pot?

The amount you withdraw from your Savings Pot will be taxed as income at your marginal tax rate, with the tax paid to SARS. A small administration fee is also be deducted from the withdrawal amount to cover the cost of processing the withdrawal. You will only receive the net remaining amount in cash after any tax and fees.

Will a withdrawal from my Savings Pot affect my future benefits from the Fund?

It is important to understand that any amounts you withdraw from your Savings Pot will reduce the benefits you will receive from the Fund in the future. By taking a Savings Pot withdrawal, you are simply advancing the payment of a portion of the benefit you would have received on future retirement or resignation.

Before taking Savings Pot withdrawals, you should consider whether the remaining benefits after the withdrawals will be sufficient to meet your needs on retirement.

What happens if I do not take Savings Pot withdrawals?

The balance in your Savings Pot will increase with the contributions (one-third of your member and employer retirement contributions) allocated to your Savings Pot each month and investment returns. You will then receive a higher benefit, than if you had taken withdrawals, when you retire or resign from the Fund in the future.

Will I receive payment immediately after I request a Savings Pot withdrawal?

Payment will not be immediate, as:

- Your application will have to be completed by your employer and submitted to MIBFA.
- MIBFA will have to verify your information and your bank account details.
- MIBFA will have to process your application and apply for a tax directive from SARS.
- If a large number of members request a withdrawal at the same time, MIBFA will have to deal with all these requests and there may be delays.

MIBFA, however, will undertake to pay all withdrawal requests as soon as possible.

Are there any reasons my withdrawal request might not be paid?

Savings Pot withdrawal requests may be delayed or refused in the following circumstances:

- MIBFA cannot verify your personal or bank account details.
- The requested withdrawal amount is less than the minimum amount of R2 000 stipulated in the Income Tax Act.
- You have previously received a Savings Pot withdrawal in the same tax year.
- Your tax affairs are not in order with SARS and SARS therefore refuses to issue a tax directive for the withdrawal payment.
- You have a housing loan guaranteed against your benefit in the Fund, in which case the Fund will have to check that the loan can be covered by your benefits excluding any amount you request to withdraw.
- MIBFA is aware of an existing or pending divorce or maintenance order against your benefit or a request by your employer to hold your benefit due to any alleged theft, dishonesty, fraud or misconduct by you.

If I withdraw a portion from my Savings Pot in a tax year and resign a few months later, can I still claim what is left?

The remaining amount in your Savings Pot will continue to grow with the portion of the member and employer contributions allocated to your Savings Pot and investment return. You can then claim any amount in your Savings Pot at the date of resignation, but this is subject to the following conditions:

- You will have to wait until the next tax year to make the next Savings Pot withdrawal.
- If you resign before the end of the same tax year, you will only be able to take the balance in your Savings Pot if it is less than R2 000. If it is more than R2 000, it must be treated the same as you elect for your Retirement Pot, i.e. either left as a paid-up benefit in the Fund or transferred to another approved retirement fund (including a preservation fund). You will then be able to take a Saving Pot withdrawal in respect of this amount from the applicable fund in the following tax year.

What happens if I am retrenched or dismissed?

The same benefits apply as for resignation (and dismissal). You will be able to take your Savings Pot (subject to the same conditions as set out in the second bullet point of the previous question if you have already taken a Savings Pot withdrawal in that tax year) and any amounts in your Vested Lump Sum Pot and your Vested Pension Pot in cash. Your Retirement Pot must be preserved until retirement.

Will I still be able to take my full benefit in cash on withdrawal from service after 1 September 2024?

No. Two-thirds of your member and employer retirement contributions after 1 September 2024 will be allocated to your Retirement Pot. You will not be able to access this Retirement Pot in cash before retirement and will have to use it to buy a pension at retirement.

What happens to my Retirement Pot when I leave employment?

If you leave employment prior to retirement, you cannot take your Retirement Pot in cash. It must be either transferred to the retirement fund (recommended if possible), to a preservation fund, to a retirement annuity fund or left paid-up in the Fund.

If you leave it paid-up in the Fund, it will continue to grow with investment returns and used to purchase a pension when you subsequently retire.

How will my voluntary contributions be allocated after 1 September 2024?

One-third of your voluntary contributions will be allocated to your Savings Pot and two-thirds will be allocated to your Retirement Pot.

What benefit is paid if I pass away while I am a member of the Fund?

The multiple of annual salary death benefit and the full amount in all your Pots will be paid to your beneficiaries.

On retirement, if there is an amount in my Savings Pot, can I transfer this to my Retirement Pot if I don’t want to take it in cash?

Yes, any Savings Pot balance on retirement can be transferred to your Retirement Pot and used to purchase a pension.

What happens if the pension I can purchase on retirement would be very small?

If your Retirement Pot together with two-thirds of your Vested Pension Pot is less than R165 000, you may take your full benefit in cash.