

NewsFlash



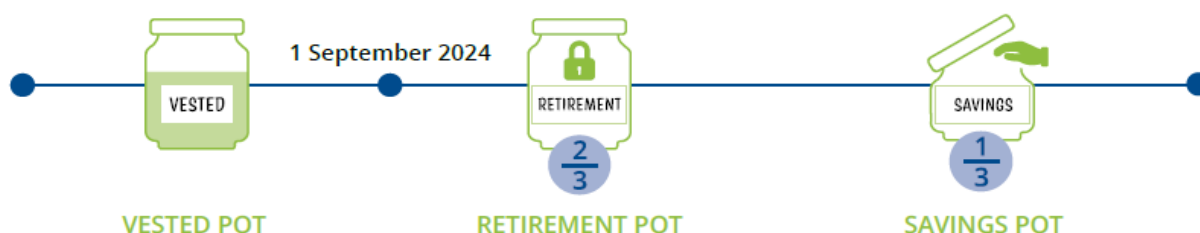
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TWO-POT SYSTEM SET FOR 1 SEPTEMBER 2024 LAUNCH

The proposed date for the implementation of the new 'two-pot' retirement system is **1 September 2024**. Here is another update on what you can expect. You can also refer to the latest issue of Fund Focus [here](#) for more information.

How will the two-pot system work?

From 1 September 2024, your retirement savings in the Fund will consist of three pots - namely a vested, retirement and savings pot. On 31 August 2024, once-off seeding capital of 10% of your retirement savings (Fund Credit) on that date up to a maximum of R30 000, will be transferred to your savings pot as seeding capital for any withdrawals you choose to make from your savings pot. The balance of your retirement savings up to 31 August 2024 will be transferred to your vested pot.



VESTED POT	RETIREMENT POT	SAVINGS POT
The value of your retirement savings less the once-off seeding capital will be transferred to this pot on 1 September 2024. You cannot access the funds in this pot until you retire or withdraw from the Fund. This pot will continue to grow with investment returns. The current Fund Rules will apply to your funds in your vested pot.	From 1 September 2024, $\frac{2}{3}$rd of your monthly Fund contributions will be allocated to this pot. You <u>cannot</u> make any withdrawals from this pot until you retire at which time all the funds in this pot <u>must</u> be used to buy you a monthly pension, unless legislated minimum values apply.	Your once-off seeding capital [10% of your retirement savings (Fund Credit)] on 31 August 2024 - up to a maximum of R30 000 - will be transferred to this pot on 1 September 2024. Thereafter, $\frac{1}{3}$rd of your monthly Fund contributions will be allocated to this pot. You can make <u>one</u> withdrawal <u>(taxable – at your marginal tax rate)</u> from this pot in a tax year (between 1 March and 28 February each year). The minimum withdrawal amount is R2 000 and the maximum amount is what is available in your savings pot. The Fund will obtain a tax directive from SARS and deduct the relevant tax from any amount you withdraw before it is paid to you.

How much can I withdraw from my savings pot?

The minimum withdrawal amount is R2 000 and the maximum amount is what is available in your savings pot. You can make only **one** withdrawal from your savings pot in a tax year, i.e. between 1 March and 28 February each year.

Example 1:

*Joe's Fund Credit on 31 August 2024 is R150 000. 10% of this amount, R15 000, will be transferred to his savings pot on 1 September 2024. If he needs money for a **financial emergency**, he can withdraw what is available in his savings pot. In his case, the maximum he can withdraw is R15 000 on 1 September.*

Example 2:

*Steve recently joined the Fund, so on 31 August 2024 he only has a Fund Credit of R18 000. 10% of this amount, R1 800, will be transferred to his savings pot on 1 September 2024. If he needs money for a **financial emergency**, he will have to wait until he has reached the minimum of R2 000 in his savings pot before he can make a withdrawal.*

How will the tax on a withdrawal from the savings pot work?

Any withdrawal you make from your savings pot will be added to your taxable income and be taxed at your **marginal tax rate** at the time of the withdrawal.

SARS will not issue a tax directive if your tax affairs are not in order, e.g. if you have outstanding tax returns or owe SARS money for prior taxes. In these cases, a deduction order (IT88) as well as the tax directive will be deducted from your gross withdrawal amount.

You are therefore encouraged to ensure that your tax affairs are in order before making a withdrawal from your savings pot.

If I am retrenched, what funds will I be able to access?

You can access all the accumulated funds in your vested and savings pots.

Is it a good idea to make annual withdrawals?

The cash withdrawal option from your savings pot is meant to assist with **financial emergencies** and not to pay for a new car, an expensive holiday or any other luxury items. Withdrawing regularly from your savings pot while you are employed will have a negative compounding effect over time, i.e. reduce your accumulated retirements savings available to purchase a pension/annuity at retirement. So, you are encouraged to save this money for your retirement!

The example below show how regular withdrawals from your savings pot can impact your accumulated retirement savings (Fund Credit) when you retire.

Example:

Julia and Cynthia are 40 years old and are members of the Fund. They both contribute R1 000 per month towards their savings pots ($\frac{1}{3}^{\text{rd}}$ of their monthly Fund contributions).

Julia decides to take advantage of the new two-pot legislation and withdraws 10% of the balance of her savings pot every year. Cynthia doesn't make any withdrawals and simply allows it to grow.

After 20 years, Cynthia's savings pot will be approximately R144 000 more than Julia's – before even allowing for investment returns. If you consider the effect of compound interest, this amount could even be significantly higher – as much as 3 to 4 times!

We will continue to update you on progress regarding the implementation of the two-pot legislation. If you have any questions about the new two-pot retirement system, please email pensionpost@dbpf.co.za.