



SANLAM RISK AND SAVINGS

# UNPACKING THE TWO-POT RETIREMENT SYSTEM

Intermediary booklet | 2 July 2024

Financial Planning | Retirement | Insurance | Health | Investments | Wealth | Credit



## Legislative update

### **Revenue Laws Amendment Act, 12 of 2024 (RLAA)**

- Signed into law on 4 June 2024.

### **Revenue Laws Second Amendment Bill (RLSAB)**

- Draft RLSAB published 21 February 2024.
- Awaiting revised RLSAB.

### **Pension Funds Amendment Bill (PFAB)**

- National Assembly passed PFAB on 16 May 2024.
- Waiting to be signed into law.

### **South African Revenue Service (SARS)**

- Latest draft Business Requirements Specification (IBIR-006 Rev 6.703) revision date 10 June 2024.

### **Financial Sector Conduct Authority (FSCA)**

- Communication 16 of 2024 published on 30 April 2024.
- Funds can submit rule amendments from 2 May to 15 July 2024.



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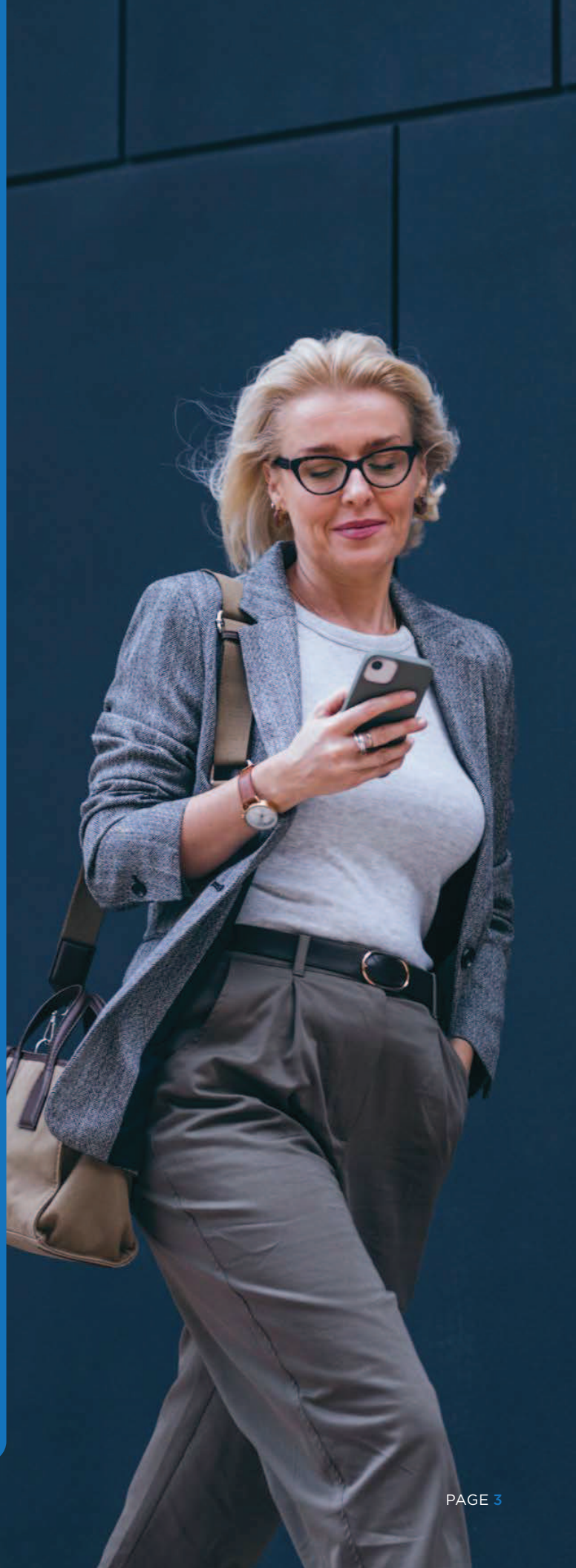
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Frequently asked questions





## What is the purpose of the two-pot retirement system?

The effective date of the two-pot retirement system is 1 September 2024.

The new retirement system aims to strike a balance between helping South Africans preserve their retirement savings until their retirement and providing controlled access to emergency funds in times of financial hardship (like the COVID 19 pandemic) while they are still employed and belong to a retirement fund.

We believe that the introduction of the two-pot retirement system may benefit many people and will contribute to achieving better long-term retirement outcomes.

### Summary

- Removes the need to resign to access savings in provident or pension funds.
- Provides controlled access to emergency funds in times of financial hardship.
- Allows partial access to retirement annuity (RA) savings.
- Requires compulsory preservation of 2/3 of the retirement benefit.

***Note:** We refer to a client in this intermediary booklet as the member of the retirement fund which holds a plan with us, Sanlam Life, on the life of that member, to provide the retirement benefits.*



## Financial advice and client education are critical to navigate this new landscape

We are dedicated to helping our financial advice partners and clients understand the new retirement system – to enable them to live confidently, knowing that every educated financial decision they make will set their future selves up for success.

Your role as a financial advice partner will be crucial in educating and encouraging clients to view access to the savings component as a last resort option, and not be the money to dip into first. Clients must understand the purpose of the two-pot retirement system and how it works to ensure that they are well informed to make financially sound decisions. They will rely on you to help them navigate this new landscape – helping them realise the importance of saving for retirement and preserving their retirement savings.

Your advice can assist them to reprioritise their goals and managing their short- and long-term savings options in the most tax-efficient way. The tax implications are of considerable importance if they want to make a withdrawal from the savings component. Clients should also understand that it will be very difficult to get their retirement savings back on track if they make withdrawals from their savings component during the duration of the wealth accumulation phase of their retirement plan.

### Summary

- Understand the tax impact on the withdrawal benefit.
- Understand the impact early withdrawals have on retirement proceeds.
- Access to savings component is a last resort option, and not an obligation.
- Educate clients to make financially sound decisions.
- Highlight the need for alternative short-term savings to access for emergencies.
- Encourage clients to keep long-term savings untouched.



## How does the two-pot retirement system work?

The two-pot retirement system applies to all retirement funds i.e. retirement annuity, pension, provident and preservation funds.

*Universal life retirement annuity policies administered on the legacy platform are exempted. The default option for Provident Fund members aged 55+ on 1 March 2021 is to not participate. More information on this in the respective sections in this booklet.*

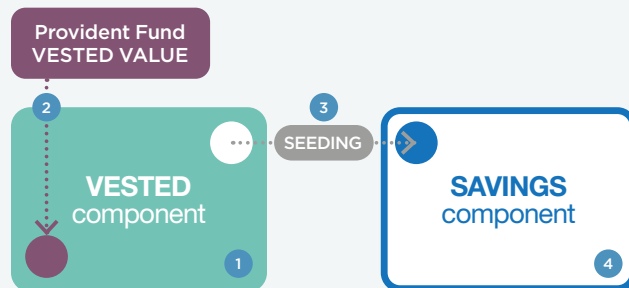


In this intermediary booklet we refer to the Central Retirement Annuity Fund, Sanlam Linked Retirement Annuity Fund, Professional Provident Society Retirement Annuity Fund (policies underwritten by Sanlam Life) and the Central Provident Fund.

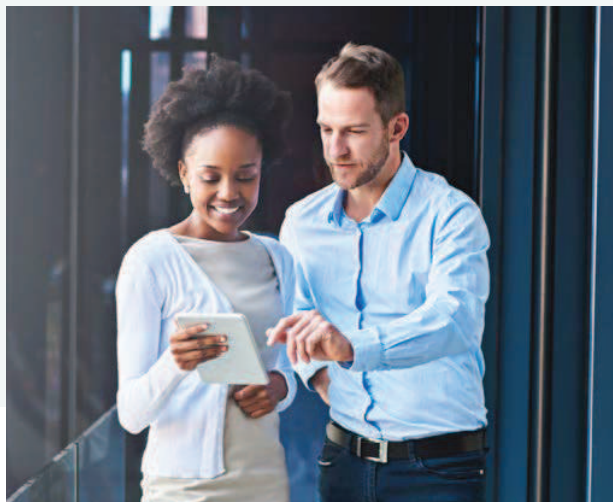
Under the two-pot retirement system the fund value of each individual plan in a retirement fund is split into separate parts referred to as components. Different rules apply to each component. Amounts allocated to the specific components will accumulate within that specific component.

Here is an overview with three sections: On the effective date, from the effective date and at retirement.

### On the effective date



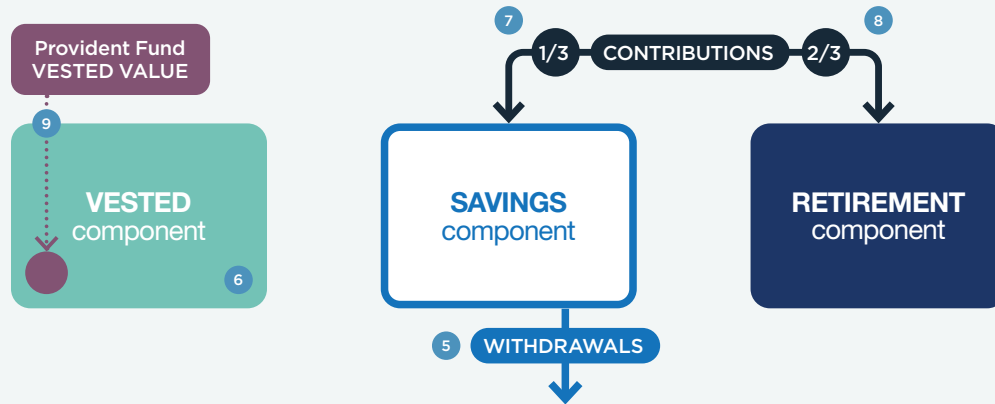
- 1 The fund value of the plan on the effective date will be allocated to a vested component.
- 2 If an amount which originated from contributions to a Provident or Preservation Provident Fund before 1 March 2021 was transferred to the plan previously, it will also be included in the vested component. This amount will be referred to in Sanlam Life documentation as the Provident Fund vested value.
- 3 On the effective date the fund value of the vested component will be reduced by an amount referred to as the once-off seeding amount.
- 4 The once-off seeding amount from the vested component will be allocated to the savings component.



## UNPACKING THE TWO-POT RETIREMENT SYSTEM



From the effective date

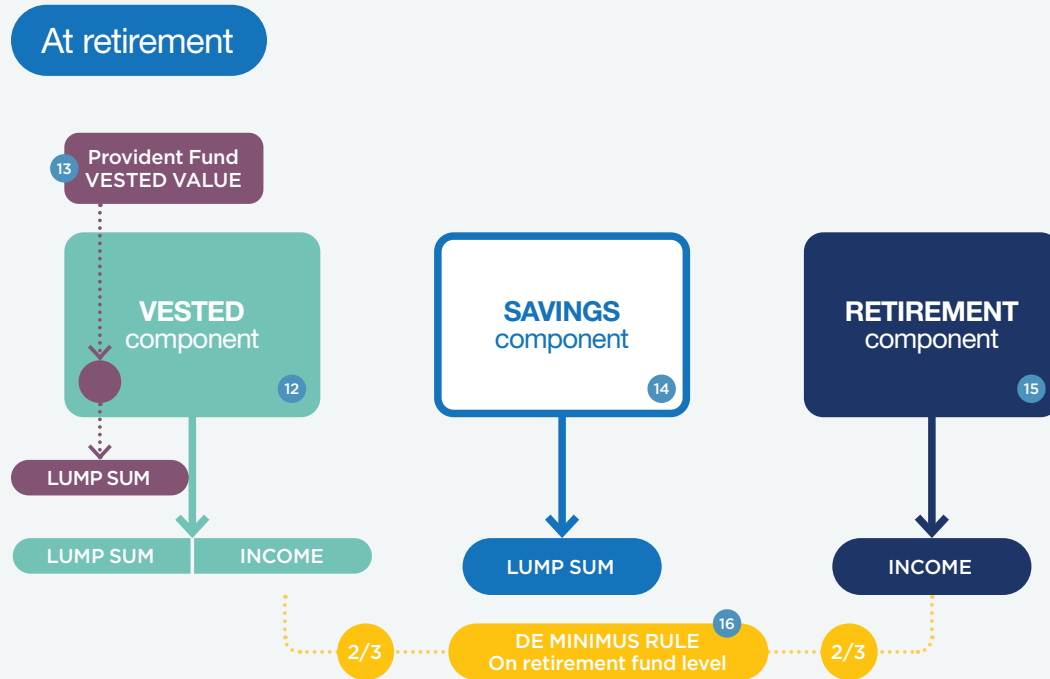


- 5 A withdrawal from the savings component of a plan is allowed once per tax year. More details in the section on withdrawal benefit from the savings component
- 6 No further contributions will be allocated to the vested component.
- 7 If recurring contributions are applicable to a plan, 1/3 of the savings part of the recurring contributions made from the effective date will be allocated to the savings component. 1/3 of any optional one-off contribution made from the effective date will be allocated to the savings component.
- 8 If recurring contributions are applicable to a plan, 2/3 of the savings part of the recurring contributions made from the effective date will be allocated to the retirement component. 2/3 of any optional one-off contribution made from the effective date will be allocated to the retirement component.
- 9 If an amount which originated from contributions to a Provident or Preservation Provident Fund before 1 March 2021 is transferred to a plan, it will be included in the Provident Fund vested value in the vested component.
- 10 For Cumulus Echo conversions (of non-universal life RA policies) the new plan will have the same allocation to the components as that of the old plan on the conversion date and any future contributions will be allocated as per the two-pot retirement system.
- 11 Any fund benefits transferred from another retirement fund after the effective date, will have the same allocation to the components as that specified by the transferring fund.





## UNPACKING THE TWO-POT RETIREMENT SYSTEM



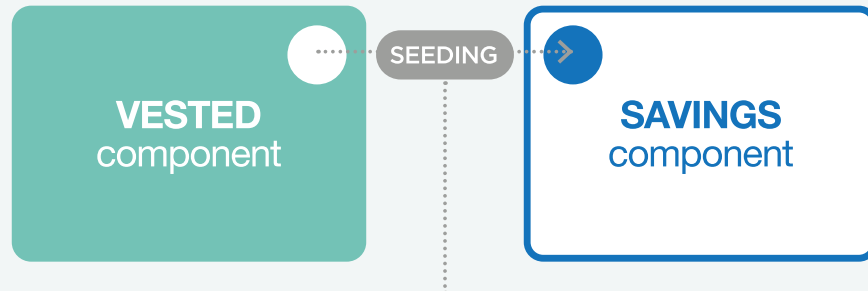
- 12** Up to 1/3 in the vested component (excl. the Provident Fund vested value) is available as a lump sum. The balance must be used to buy an annuity to provide an income after retirement. Alternatively, the full benefit amount can be used to buy an annuity to provide an income after retirement.
- 13** The Provident Fund vested value can be taken as a lump sum or alternatively it can be used to buy an annuity to provide an income after retirement.

- 14** The full benefit amount in the savings component may be taken as a lump sum. Alternatively, a lower amount may be taken as a lump sum with the balance being used to buy an annuity to provide an income after retirement. If the client chooses a lump sum, the amount will be taxed according to the retirement lump sum tax table and could be tax-free within certain limits.
- 15** Amounts allocated to the retirement component must be preserved until retirement. The retirement benefit in this component must be used to buy an annuity to provide an income after retirement.
- 16** The de minimis rule, currently R165 000 (this is 2/3 of R247 500), applies on retirement fund level to the combined total of the retirement component and the portion of the vested component that must be used to buy an annuity to provide an income after retirement. If the combined total is R165 000 or less, the proceeds may be taken as a lump sum.





## Seeding amount from the vested component to the savings component



The fund value of the vested component is reduced by a once-off seeding amount allocated to the savings component.

This automatically applies to all existing clients on the effective date. They will not have an option to opt out of the seeding event.

This is a once-off event and not an annual occurrence. There is no tax implication for the once-off seeding from the vested to the savings component.

The seeding amount is calculated once-off for each individual plan (including paid-up plans) in a retirement fund on the effective date. It is calculated as the lower of 10% of the amount allocated to the vested component on the effective date and R30 000.

AMOUNT ALLOCATED TO THE VESTED COMPONENT	SEEDING AMOUNT CALCULATION
Less than R300 000	10% of amount in the vested component
R300 000 or more	R30 000

The seeding amount will be taken proportionally from the Provident Fund vested value and the remaining balance of the vested component.

The calculation of the seeding amount will take any bonuses into account. Here are some examples:

EXAMPLE 1 NO BONUSES		EXAMPLE 2 WITH BONUSES	
FUND VALUE » R100 000	SEEDING » R10 000	FUND VALUE » R100 000 BONUS » R10 000	SEEDING » R10 000 SEEDING » R1 000
FUND VALUE » R500 000	SEEDING » R30 000	FUND VALUE » R500 000 BONUS » R50 000	SEEDING » R27 273 SEEDING » R2 727





## Withdrawal benefit from the savings component

**SAVINGS**  
component

1 WITHDRAWAL PER  
PLAN PER TAX YEAR

According to the two-pot retirement system a withdrawal from the savings component of a plan is allowed once per tax year. If the client has more than one retirement plan, they can make a withdrawal from each plan at different times during the tax year.

The client may make a withdrawal from the savings component of a plan provided that the legal requirements and our conditions at the time are met.

***Note:** Provident Fund members may request a 2nd withdrawal in a tax year if at resignation or retrenchment the available amount in the savings component is less than R2 000 and on the condition that everything should then be withdrawn.*

### Transaction charge on withdrawals

We will levy a transaction charge for withdrawals from the savings component. The transaction charge is currently R500 (plus VAT, if applicable) per withdrawal event per plan on which a withdrawal is done, irrespective of the amount. The transaction charge amount is determined by means of regulatory measures and will change in future if such regulatory measures or legislation change.

### Impact of the withdrawal benefit on the savings component

To pay the withdrawal benefit we will reduce the fund value of the savings component of a plan by selling units. The value of the units sold plus any Wealth Bonus, loyalty bonus and/or Sanlam Retirement Booster on this value will be equal to the withdrawal amount plus the transaction charge.

For Cumulus Echo plans the units sold will be taken proportionally from each payment layer.

For plans that offer a loyalty bonus and/or Sanlam Retirement Booster, and where a withdrawal is done after the contractual chosen retirement date, a loyalty bonus and/or Sanlam Retirement Booster will be added to the units sold. If the withdrawal is done before the contractual chosen retirement date on these plans, the calculation of the loyalty bonus and/or Sanlam Retirement Booster may be negatively affected.





## Calculation of the withdrawal benefit from the savings component

**SAVINGS**  
component

VALUE MUST BE  
AT LEAST R2 500

The fund value in the savings component less a transaction charge is available for withdrawal without any prescribed maximum limit. The minimum withdrawal amount allowed is R2 000 after the deduction of a transaction charge.

*Note: The R2 500 is the minimum withdrawal amount plus the R500 transaction charge.*

The date on which the withdrawal amount will be calculated will be the date that the Client Care Centre receives the correctly completed withdrawal request form together with all other requirements.

If on the calculation date the withdrawal benefit has since reduced to below the minimum allowed, the withdrawal will unfortunately not be allowed.



### Information in the withdrawal request form

The withdrawal request form will disclose all the client's plans in a retirement fund.

It will display the current fund value distribution per component per plan.

The savings component withdrawal benefit information will also be provided.

It will also include a summary of any potential bonuses included in the withdrawal benefit.

An example to illustrate the impact of the marginal income tax on a withdrawal benefit will be included in the withdrawal request form.

The withdrawal request form will always show the maximum withdrawal amount per plan. The client can specify an amount less than the maximum but not below R2 000 per plan.

If the requested amount exceeds the maximum available on the withdrawal calculation date, we will process the withdrawal for the maximum available amount.



## Tax on the withdrawal benefit from the savings component

The withdrawal benefit will be taxed at the client's marginal tax rate, which will depend on their total taxable income in the tax year, including withdrawals from savings components. The income tax amount and/or IT88 as indicated by SARS will be deducted from the withdrawal benefit before it is paid to the client. The withdrawal benefit will be included in the client's tax assessment in the tax year in which the withdrawal was done.

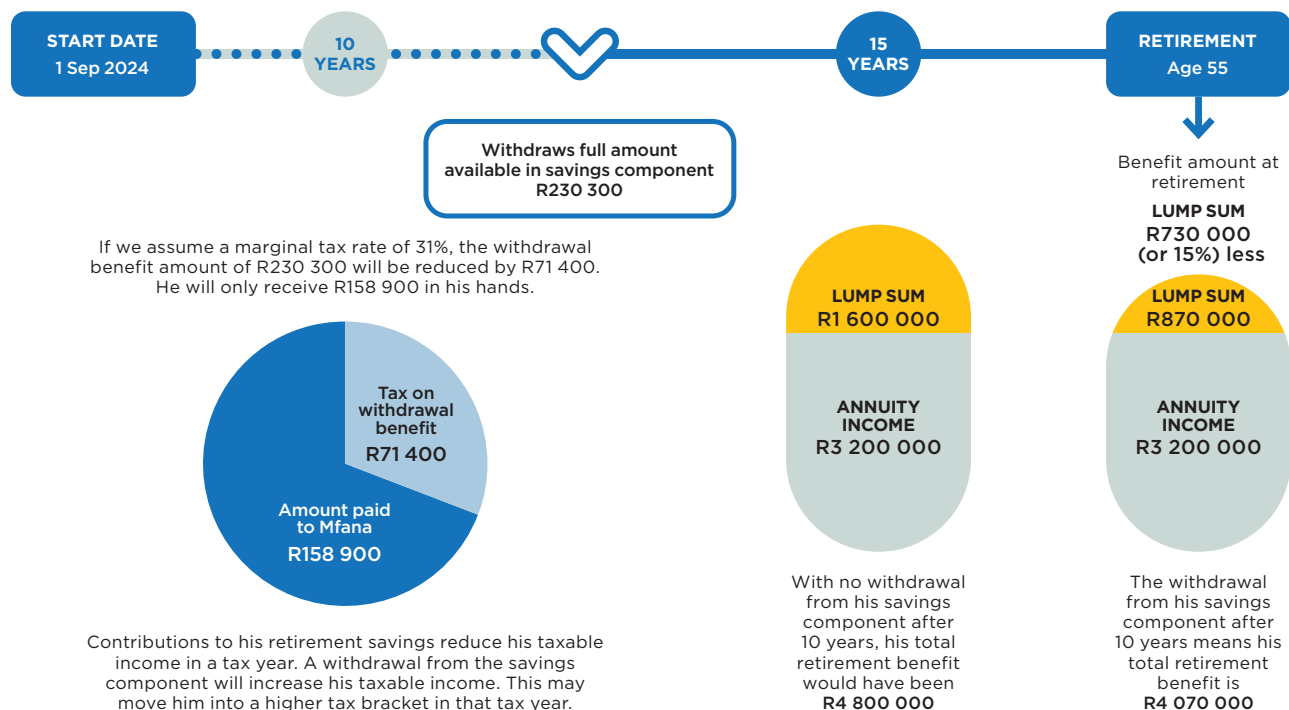
Here is an example of the impact of tax on the withdrawal benefit. It also illustrates the impact of the withdrawal on the savings component at retirement.



### Example

**Meet Mfana. He is 30 years old.**

He starts his new retirement annuity (RA) from 1 September 2024 with a planned retirement age of 55. His monthly contribution to the RA is R3 000 that increases at an assumed inflation rate of 6% a year. The illustrative net (after all charges) investment growth rate is 8% per annum.



There is no tax relief for withdrawals from the savings component. The first R550 000 of any lump sum payouts on retirement is however currently tax free and the remainder taxed as a retirement fund lump sum benefit on the retirement lump sum table.





# Process to request a withdrawal benefit from the savings component

01



## BENEFIT STATEMENT

From 1/9/2024 the benefit statement should be used as 1st reference to determine the fund value of the savings component and if a withdrawal on a plan is still available in the tax year.

02



## REQUEST WITHDRAWAL FORM

**Clients:** Sanlam Secure Service or the Client Care Centre (CCC) via WhatsApp, email or telephone.

**Intermediaries:** Also SanPort.

03



## RETURN FORM TO CLIENT CARE CENTRE

Clients must return completed form together with all valid requirements.

SARS requires that the client must be a registered taxpayer and that their tax reference number as well as their latest annual income\* must be provided for inclusion in the tax directive application. Copies of the client's ID and bank statement (not older than 3 months) are also required when submitting the withdrawal request. Their residential address must also be provided on the withdrawal request form.

04



## CLIENT CARE CENTRE STARTS PROCESSING

CCC can only start processing request when all the legal and valid requirements at the time are met.

08



## CLIENT CARE CENTRE FINALISES WITHDRAWAL

The requested withdrawal benefit reduced by the income tax amount and/or IT88 (as indicated by SARS) will be paid to the client.

07



## WITHDRAWAL CANNOT BE CANCELLED

When a tax directive has been issued by SARS, we are not allowed to cancel the tax directive as per instruction from SARS. This also means that the withdrawal request cannot be cancelled at this point.

**Note:** IT88: If SARS is owed any monies, they will instruct for it to be deducted from the withdrawal benefit and paid over to them.

06



## REQUEST TAX DIRECTIVE FROM SARS

The CCC will request a tax directive from SARS. The withdrawal can only be paid to the client after the CCC has requested and received an approved tax directive from SARS.

**Note:** This assumes that the fund rules are approved by the FSCA and the new directive for these withdrawals are available on the SARS E-filing system.

05



## CALCULATION DATE OF WITHDRAWAL AMOUNT

This is the date on which the CCC receives the completed withdrawal request form together with all other requirements. If the withdrawal benefit has since reduced to below the minimum allowed, the withdrawal will not be allowed.

09



## CONFIRMATION LETTER TO THE CLIENT

The letter will include the withdrawal benefit paid; date of payment; income tax and/or IT88 that has been deducted; transaction charge that has been deducted as part of the calculation of the withdrawal benefit; any bonus that was added and that no further withdrawals will be permitted on the plan in the current tax year.

### Other requirements as well as terms and conditions

- The withdrawal request form may only be completed and signed by the client unless a Power of Attorney is provided.
- A withdrawal will not be allowed once we have received notice of the death of the client or if a request for a transfer as intended in section 14 of the Pension Funds Act is being processed.
- If a withdrawal request is followed by a notification that the client has passed away, the withdrawal benefit will be paid into the bank account of the deceased's estate.
- Where the client is deceased, the executor cannot make a withdrawal request as only a death benefit is payable in terms of the fund rules.
- Where the client is a minor and does not have their own bank account, we will pay the withdrawal benefit into a guardian's bank account, provided that the completed option form is accompanied by the minor's birth certificate and subject to our online verification of the guardian's bank account. The tax directive will, however, be requested in the name of the minor.
- If the client wants the withdrawal benefit to be paid into an overseas bank account, they will need to open a non-resident bank account.

\* SARS definition of annual income means all income from employment, an insurer or retirement fund, i.e. salary remuneration, emoluments, wages, bonus, leave pay, fees, gratuities, commission, pension, overtime payments, stipend, allowances and benefits, annuities, compensation, honorarium.



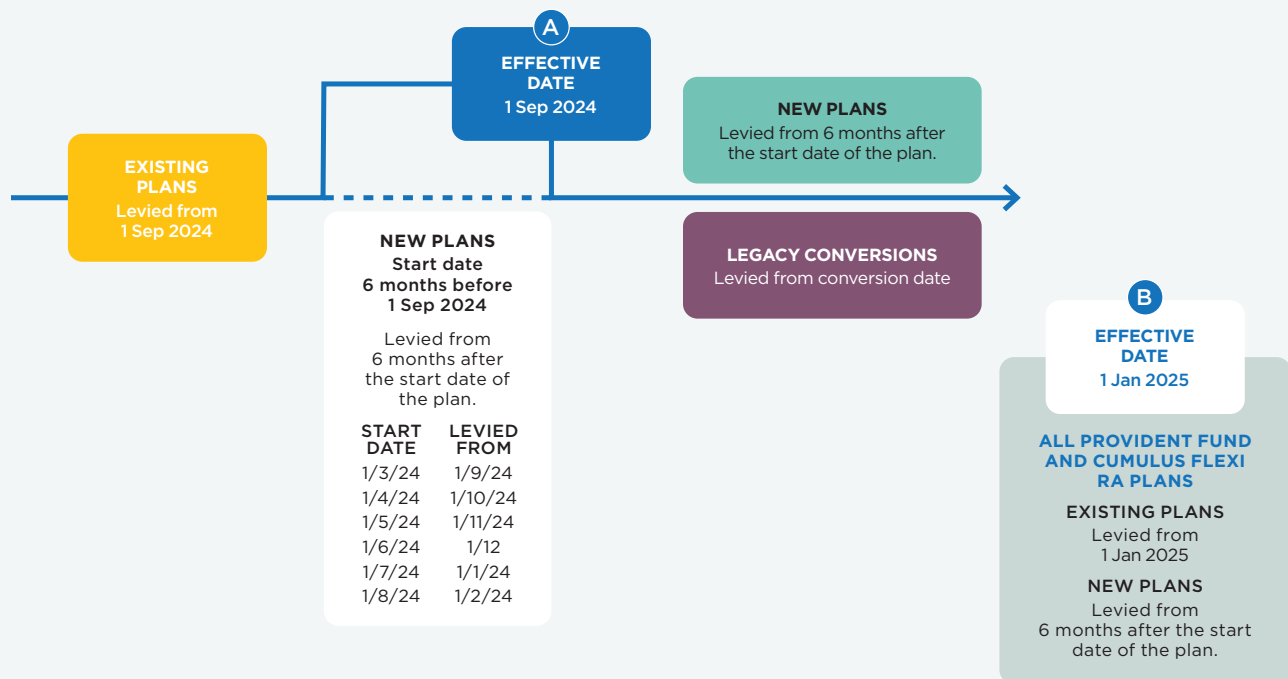
## Two-pot administration charge

The two-pot administration charge is levied for the ongoing administration of the various components and related events specified under the two-pot retirement system legislation.

It is a fixed monthly amount levied for the duration of the plan. This amount is deducted monthly from

the fund value (proportionally from all layers, if applicable, and components) by selling units to the value of the charge. The two-pot administration charge is currently R15 per month (plus VAT, if applicable). It will be increased from time to time to allow for inflation, as determined by Sanlam Life.

The effective date of this charge will be applied as follows:



A two-pot administration payback accumulates over the duration of the plan. It is calculated as the sum of the monthly two-pot administration charge plus money market-related investment return up to the time of the calculation.





## Two-pot administration payback



The two-pot administration payback is an amount that accumulates over the duration of the plan.

### Calculation

It is calculated as the sum of the monthly two-pot administration charge plus money market-related investment return up to the time of the calculation.

### Payable

The payback amount will be added to the benefit payable if the plan is terminated due to the following qualifying events:

- the death of the client, or
- early retirement, or
- retirement or termination on or after the option date, or
- if the client qualifies for disability benefits as defined in the rules of the retirement fund.

The payback amount will be added proportionally to the values of the vested, savings and retirement components.

For Cumulus Echo conversions from 1/9/2024 the number of withdrawals that were made on the old plan will be transferred to the new plan. It will be included when calculating the reduction percentage on any future withdrawal events on the new plan.

### Impact of a withdrawal from the savings component on the two-pot administration payback

When a withdrawal from the savings component is done, the accumulated two-pot administration payback up to that point will be reduced by a certain percentage, as indicated in the table below.

WHEN A WITHDRAWAL FROM THE SAVINGS COMPONENT IS DONE	PERCENTAGE REDUCTION IN ACCUMULATED PAYBACK
--	---

1st withdrawal event	25%
2nd withdrawal event	50%
3rd withdrawal event	75%
4th and subsequent withdrawal events	100%

#### EXAMPLE » To illustrate this, we will use an example with 0% money market-related investment return.

If the accumulated payback is R5 000 on the 1st withdrawal event, the accumulated payback will be reduced to R3 750. This amount will continue to accumulate with the monthly two-pot administration charge that is deducted from the plan. So, if a 2nd withdrawal is done 1 year later, the accumulated payback amount will be reduced from R3 930 to R1 965.

The reduction percentage will increase with each subsequent withdrawal event over the duration of the plan. The reduction will happen regardless of the withdrawal amount. The reduced two-pot administration payback amount will continue to accumulate with the monthly two-pot administration charge and money market-related investment return over the remaining duration of the plan.





## Benefit statement information

From 1 September 2024 the benefit statement will include details related to the two-pot retirement system per plan in a retirement fund.

### Example of some sections in benefit statement

#### Values

Transfer value*	R
Retirement value for ill-health*	R
Total fund value* 1	R
Two-pot administration payback 7	R

#### Wealth Bonus calculated on 4

Transfer value	R
Retirement value for ill-health	R
Total fund value	R

The Wealth Bonus on the total fund value has been calculated on the statement date, on the assumption that the plan will continue unchanged up to the planned retirement date.

The other Wealth Bonus amounts show the amount that will be added if the respective event should take place with no other preceding event.

#### Two-pot split of total fund value 2

Savings component	R
Last withdrawal date 8	-
Number of withdrawals made 9	0
Retirement component	R
Vested component	R

#### Bonus calculated on savings component

Wealth Bonus** 3	R
------------------	---

\* The amounts do not include the Wealth Bonus and two-pot administration payback.

\*\* This is the bonus amount(s) to be added to the savings component on withdrawing the maximum amount.

- 1 The total fund value amount is the combined value of the amounts in the each of the various components shown under 'Two-pot split'.
- 2 The various components with their amounts will be shown separately. The vested and retirement components will only print if the value is more than R0.
- 3 Any bonus calculated on the fund value of the savings component will be shown separately. It must be added to the value of the savings component to determine the maximum gross withdrawal benefit.
- 4 The Wealth Bonus at termination amount on the savings component forms part of these values. A withdrawal from the savings component will reduce these amounts proportionally.
- 5 For plans with a loyalty bonus and/or Sanlam Retirement Booster, it will form part of the withdrawal benefit if a withdrawal from the savings component is done after the contractual chosen retirement date. The bonus amount will be shown separately.
- 6 For plans with a loyalty bonus and/or Sanlam Retirement Booster, where the withdrawal is done before the contractual chosen retirement date, the calculation of these bonuses may be negatively affected. No bonus will be added to the withdrawal benefit. It will therefore not be shown separately on a benefit statement.
- 7 The accumulated value of the payback will be shown separately in the values section of a benefit statement. It is not included in any of the other values.
- 8 The number of withdrawals from the savings component is shown. It can be used to determine any reduction in the accumulated value of the two-pot administration payback.
- 9 The last withdrawal date can be used to determine if a withdrawal from the savings component has been done on the plan in a tax year.
- 10 The amounts allocated to each of the various components will have the same investment fund allocation. This means that the amounts invested in each of the chosen investment funds will be split proportionally between the various components.



## Potential combination of components

From 1 September 2024 a plan in a retirement fund can consist of different components. Here are some examples.

	VESTED COMPONENT	SAVINGS COMPONENT	RETIREMENT COMPONENT
<b>PLANS THAT STARTED BEFORE 1 SEPTEMBER 2024</b>			
1 With recurring payments	•	•	•
2 One-off payments only or paid-up	•	•	
3 One-off payments only or paid up and full withdrawal from savings component is done	•		
<b>PLANS THAT START FROM 1 SEPTEMBER 2024</b>			
4 With recurring payments		•	•
5 One-off payments only or paid-up		•	•
6 One-off payments only or paid up and full withdrawal from savings component is done			•

If some components are not applicable on a plan at a point in time it could be applicable again in future if any of the follow happens on the plan:

- If any fund benefits are transferred from another retirement fund after the effective date, it will have the same allocation to the components as that specified by the transferring fund.
- 1/3 of any optional one-off payment made from the effective date will be allocated to the savings component.
- 2/3 of any optional one-off payment made from the effective date will be allocated to the retirement component.



## UNPACKING THE TWO-POT RETIREMENT SYSTEM

### Provident Fund members aged 55 or older on 1 March 2021

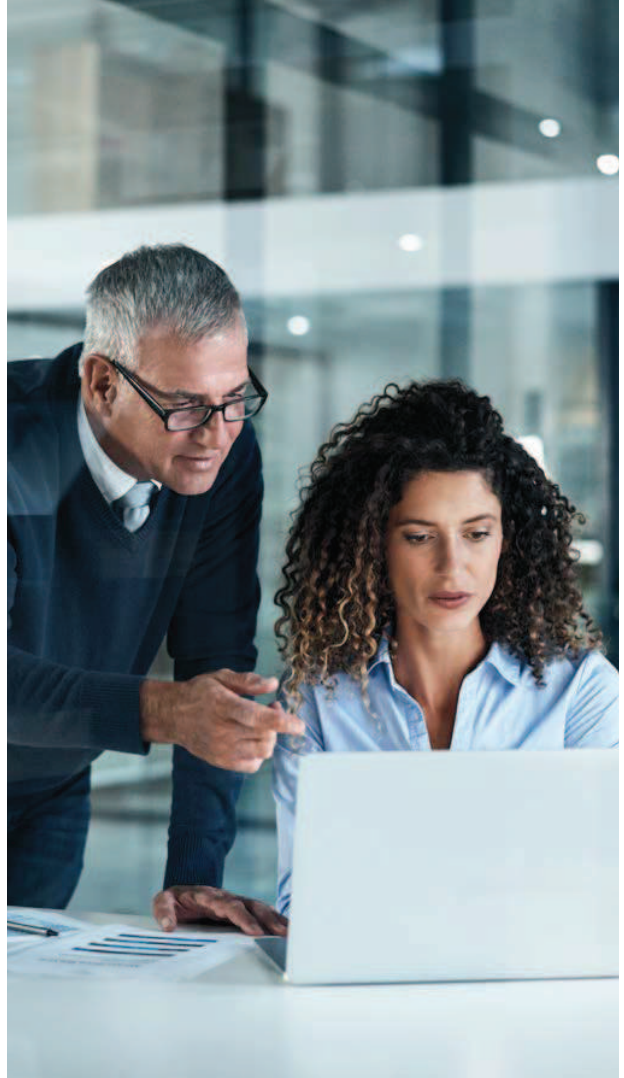
For Provident Fund members aged 55 or older on 1 March 2021 and that remained a member of the same provident fund, the default option will be that they do not participate in the two-pot retirement system. In terms of the legislation promulgated on 1 March 2021, these members are entitled to take their full proceeds as a lump sum on retirement while they remained a member of the same provident fund. This includes contributions made both before and after 1 March 2021.

They will however have an opportunity to participate in the two-pot retirement system. This opportunity will only be available for 12 months from the effective date of the two-pot retirement system. Once they have opted in, they cannot opt out again. If they do not opt in within the 12-month period, their plans will remain unchanged and will therefore not be impacted by the two-pot retirement system.

#### Members who opted in

Their payments from the 1st day of the month following their opt in date, will also be split and allocated 1/3 and 2/3 to the savings and retirement components, respectively. Their plans will also have a seeding amount. The calculation of the seeding amount will be based on the fund value of the plan on the last day of the month in which they opted in, with the seeding amount deducted from the vested component and added to the savings component on the 1st day of the month following the opt in date.

**FOR EXAMPLE »** If the client opted in during October 2024, the fund value of the plan on 31 October 2024 will be allocated to a vested component. It will be reduced by a once-off seeding amount which will be allocated to a savings component. The seeding amount will be calculated as the lower of 10% of the plan's fund value on 31 October 2024 and R30 000. The contributions will be split between the savings and retirement components starting from November 2024 when the next payment is due.



### Universal life RA policies administered on the legacy system

Universal life RA policies administered on the legacy system are exempted from participating in the two-pot retirement system.

If a conversion is done from the effective date, they will automatically form part of the two-pot retirement system.

**FOR EXAMPLE »** If the conversion is done 1 November 2024, the fund value of the legacy policy on 31 October 2024 will be allocated to the vested component of the new plan. From 1 November 2024 when the next payment is due, the contributions will be split 1/3 and 2/3 between the savings and retirement components, respectively.





## Frequently asked questions

### **Q1** What did we communicate to clients with plans in retirement funds administered and underwritten by Sanlam Life?

In October 2023, we communicated to all members of the Central Retirement Annuity Fund, Sanlam Linked Retirement Annuity Fund, Sanlam Preservation Pension Fund and Sanlam Preservation Provident Fund that the two-pot retirement system is planned for 2024 and that we will keep them updated once we have more information.

In 2024 we send clients an addendum to update their existing plan contracts with us. The addendum provides all the changes to the contract in relation to the two-pot retirement system:

- From 25 June 2024 all members of the Central Retirement Annuity Fund (excluding those with Cumulus Flexi Retirement Plans), Sanlam Linked Retirement Annuity Fund, Sanlam Preservation Pension Fund and the Sanlam Preservation Provident Fund received the addendum to their existing plan contracts.
- Members of the Central Provident Fund, Central Retirement Annuity Fund with Cumulus Flexi Retirement Plans and all new business retirement plans issued from 7 July 2024 received the addendum to their existing plan contracts from mid-September/October 2024.

The addendum communication will be followed-up with another emailer to direct all members to our two-pot retirement system webpage on [Sanlamonline.co.za](http://Sanlamonline.co.za) for more educational content. In August 2024 we will also communicate to them about the process to request a withdrawal from the savings component.

Members of the Central Provident Fund who were aged 55 or older on 1 March 2021, will receive an option letter before 1 September 2024 which they must complete and send back to us if they wish to participate in the two-pot retirement system.

### **Q2** Can the payment allocation to the savings and retirement components be changed?

The two-pot retirement system does not allow for the payment allocation to the savings and retirement components to be less than or more than 1/3 and 2/3, respectively.

### **Q3** In which underlying investment funds are the various components invested?

The introduction of the two-pot retirement system will have no impact on the chosen investment funds or investment options applicable to the plan. The amounts allocated to each of the various components will have the same investment fund allocation. This means that the amounts invested in each of the chosen investment funds will be split proportionally between the various components. The investment fund allocation may not be specified per component. If the investment funds are switched or any future payments are redirected to other investment funds at any time, each of the various components will be impacted similarly.

### **Q4** How is the calculation of the plan's effective annual cost (EAC) and plan performance impacted by the two-pot retirement system?

The introduction of the two-pot retirement system will have no impact on these calculations. This means that these calculations will still be done on the total plan level and not per individual component.

### **Q5** Are the two-pot administration charge and two-pot administration payback included in the calculation of the EAC?

Yes. The EAC calculation will take both the charge and the payback amount into account. The payback amount will be included in the relevant values on or after option date. The EAC will make provision for the impact of the charge in the EAC administration component and the payback amount in the EAC other component.



### **Q6** What is the impact of charges and/or bonuses on the various components?

Any charges deducted from or additional allocation added to the payment will be applied proportionally between the applicable components. All other charges will be applied proportionally to the savings and retirement components. This includes charges which are levied either through cancelling units or in the unit price calculation. The following, if applicable, will also be applied proportionally to the various components: Wealth Bonus, Loyalty Bonus, Sanlam Retirement Booster, early termination charge, two-pot administration charge, twopot administration payback, payment reduction charge, other relevant transaction charges or fund-based fee.

### **Q7** Does a withdrawal from the savings component impact any intermediary remuneration paid?

Unvested upfront commission will not be clawed back if a withdrawal from the savings component is done. It will be clawed back only if the payment is reduced/stopped. Future payment-based commission will also be lower if the payment is reduced/stopped. If any intermediary fund-based fee applies on the plan, a withdrawal from the savings component will result in a lower fund-based fee amount in future because the fund value of the plan will be reduced.

### **Q8** Can a withdrawal from the savings component be replaced?

Yes, but it will not be allocated to the savings component only. If the withdrawal amount is 'paid back' on the plan, it will be treated as a new contribution and allocated 1/3 to the savings component and 2/3 to the retirement component.

### **Q9** Does the withdrawal amount from the savings component impact the R550 000 lump sum amount that are currently tax-free at retirement?

No, it does not. The savings withdrawal benefit is taxed at the individual member's marginal tax rate and not on the retirement fund withdrawal table which include a tax-free portion. As a result it is not aggregated with the lump sum at retirement or death which is taxed on the table for retirement fund lump sum retirement/death benefits.

### **Q10** Are withdrawals from the vested and/or retirement components allowed?

No. Withdrawals are not allowed from these components. The only exceptions are: If the retirement benefit of all retirement annuity plans in the retirement fund do not exceed an amount as prescribed in legislation, currently R15 000, and all the plans are paid-up. The retirement fund membership can then be terminated, and the retirement benefit be paid out. For both retirement annuities and Provident Fund plans where the client is no longer a Soth African tax resident and plans in the retirement fund are paid-up, the client can terminate retirement fund membership and withdraw the retirement benefit, subject to the requirements of SARS.

Provident Fund members can at resignation or retirement from employment take the available benefit amount in the vested component, less a termination charge, if applicable, plus the available benefit amount in the savings component, less a transaction charge, in cash. The benefit amount in the retirement component must be preserved until retirement.

### **Q11** Is it possible for a plan to have a savings component with R0 value?

Yes. This will happen if all the funds in the savings component have been withdrawn and no further payments are made on the plan. It will have a value in the savings component again if payments are resumed and/or one-off payments are added and/or any fund benefits are transferred from another retirement fund and one of the components specified by the transferring fund is a savings component.

### **Q12** Is it possible for a plan to have a vested and/or retirement component with R0?

New business plans that start from 1 September 2024 will not have a vested component unless fund benefits are transferred from another retirement fund with a vested component.

Plans that are paid-up or consist of one-off payments only on the effective date, will not have a retirement component unless any optional one-off payments are added from the effective date in which case 2/3 will be allocated to a retirement component and/or fund benefits are transferred from another retirement fund with a retirement component.



### **Q13** Are transfers between the various components allowed?

The two-pot retirement system allows for amounts to be transferred from the savings and/or vested components to the retirement component of the plan. With such a transfer the full value of the savings and/or vested component must be transferred; partial transfers are not allowed. No other transfers between the components are allowed. The functionality to enable these transfers between the various components will however not be available immediately after the effective date.

### **Q14** Do the tax deductions for contributions to retirement funds still apply?

Yes, the following remains unchanged: The maximum deduction (subject to an overall maximum of R350 000 per year) for a retirement annuity, pension or provident fund member is 27.5% of the greater of remuneration (excluding retirement fund lump sum benefits, retirement fund lump sum withdrawal benefits and severance benefits); and taxable income from trade (including taxable interest).

### **Q15** When can disallowed contributions to retirement funds be used?

Any retirement contributions over and above the annual 27.5% deductible amount or R350 000 per year are accumulated and referred to as “disallowed contributions”. It can only be used at retirement to either be added to the lump sum and then taken as a tax-free amount or taken into account in the calculation of the tax payable on the annuity income i.e. deduction under Section 10C. No deduction on a withdrawal from the savings component.

### **Q16** What happens when transferring fund benefits to another retirement fund?

The client can request to transfer their fund benefits from their current retirement fund to another approved registered retirement

fund. The client is required to transfer all the components to the new retirement fund if such a transfer takes place. Each component will be allocated to the same component in the new retirement fund. The date of the last savings component withdrawal will also be included as part of the transfer. The client will not be allowed to make another withdrawal from the savings component in the new retirement fund if they have already done a withdrawal in that specific tax year. Although there is no tax-impact on such a transfer, Sanlam Life must still request a nil tax directive for the transfer.

The following remains unchanged: If retirement annuity fund members with more than one retirement annuity in a retirement annuity fund want to transfer only some of these plans to another retirement annuity fund, the transfer value of each individual plan to be transferred must exceed R371 250 and the total value of the remaining plans must exceed R371 250.

### **Q17** How will pension interest payments be done?

Deductions from the client's plan in terms of a divorce court order to do a pension interest payment will be deducted proportionally from the applicable components of the plan. For example: If the plan has vested, savings and retirement components, the pension interest payment will be deducted proportionally from all three components. If a client has more than one plan and all plans are mentioned in the deed of settlement that forms part of the divorce order the same proportionality will apply to each plan.

If the non-member spouse takes the pension interest payment in cash it will be taxed on the withdrawal table in the hands of the non-member spouse. If the non-member spouse transfers the pension interest to their own retirement fund, it must be allocated according to the components from which it was paid, but the non-member spouse can also elect to transfer from vested to retirement component and from savings to retirement component.

*This intermediary article forms part of our ongoing support to intermediaries. It does not constitute advice by Sanlam. The terms and conditions of the plan contract including the addendum and withdrawal request form supersede the contents of this intermediary booklet.*



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