UNDERSTANDING THE TWO-POT RETIREMENT SYSTEM FOR GEPF MEMBERS

On 1 September 2024 the Two-Pot Retirement System will be introduced. It changes how all future contributions and benefits to retirement funds in South Africa are treated, including the Government Employees Pension Fund.

The reason for these changes is to improve retirement outcomes while providing members access to a portion of their retirement savings prior to retirement.

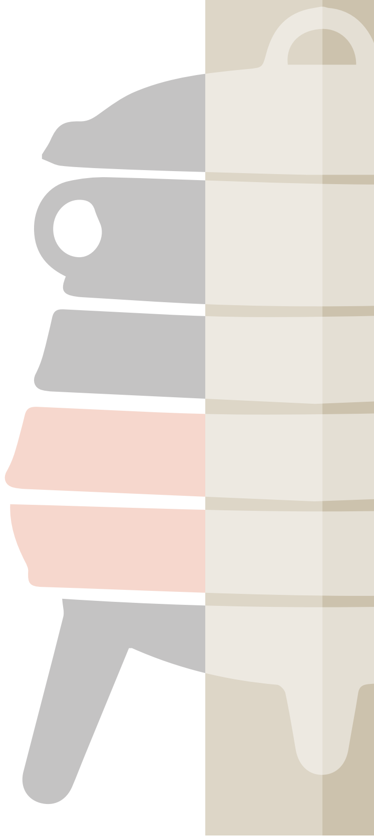
By providing limited access to funds prior to retirement, the government recognises that members experience life events during their working years which may require access to emergency funds. However, by requiring a portion of the fund to be preserved until retirement, the government aims to ensure members have sufficient income in their older years.

How pensionable service will be allocated from 1 September 2024

The implementation of the Two-Pot Retirement System does not impact benefits earned up until 31 August 2024. Years of service earned up to 31 August 2024 will remain separate and are referred to as "vested service".

However, all pensionable years of service from 1 September will be split between retirement service and savings service. Two-thirds of pensionable service will go to the so-called "retirement pot" and one-third to the "savings pot". For GEPF members this means that for every year of future pensionable service, four months will be allocated to savings service and eight months will be allocated to retirement service.

Members will receive a single benefit statement that separately reflects the benefits in each pot.



Example

A year after implementation

This is an illustration of what a pension fund statement could look 12 months after implementation. This assumes 16 years of service as at 1 September 2025 based on the member accumulating 15 years of pensionable service up to 31 August 2024 and an additional year of service up to 1 September 2025. This also assumes that you do not make any withdrawal between 1 September 2024 and 1 September 2025.

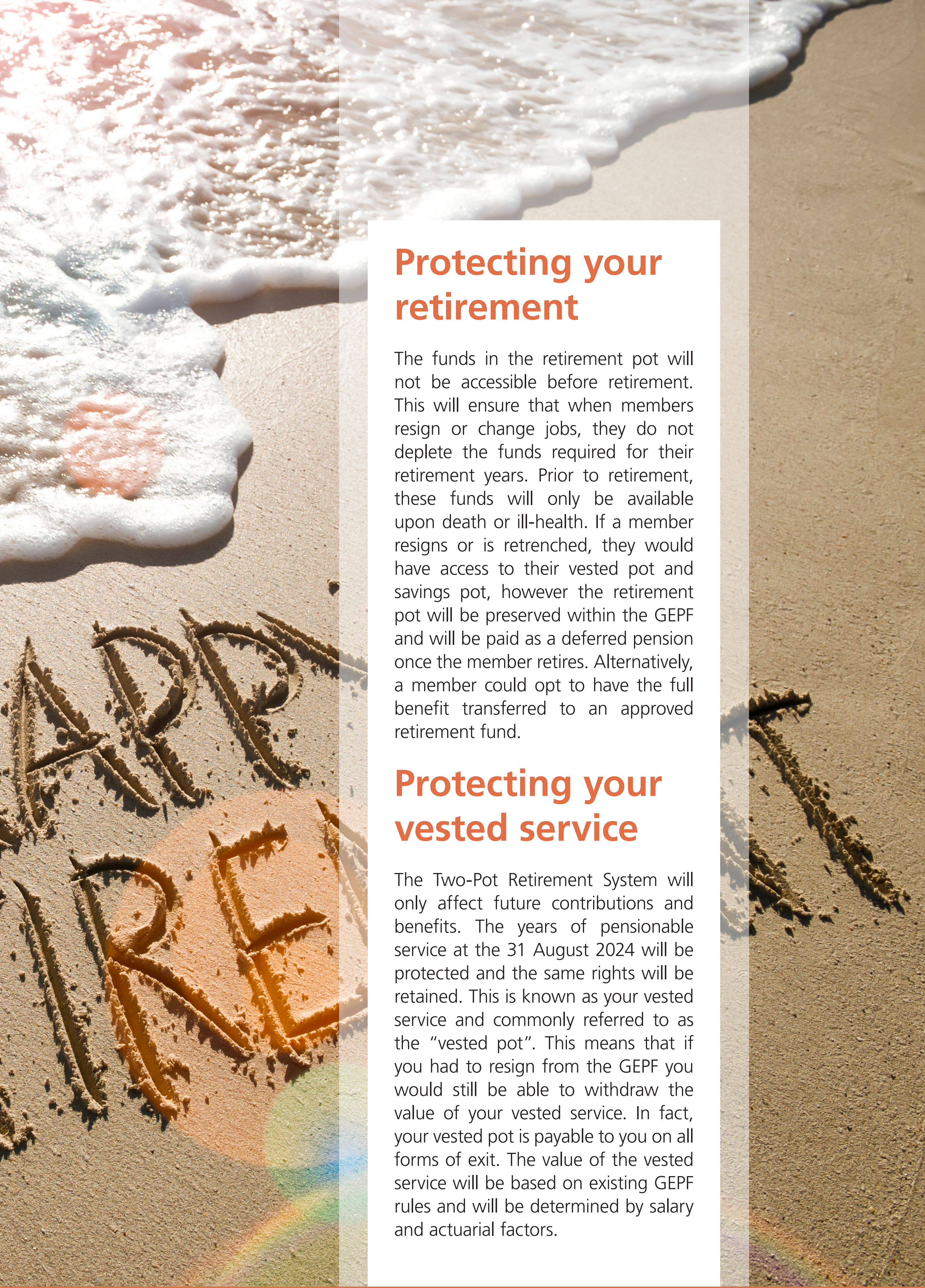
- Vested pot would reflect 15 years of pensionable service.
- Retirement pot would reflect eight months of retirement service
- Savings pot would reflect four months of savings service.

Providing access for life events

A special, once-off transfer of "seed capital" will be added to the savings pot. This is an amount equal to 10% of the benefit value of your fund as of 31 August, however this is capped to a maximum of R30 000.

Members will be able to access any funds in their savings pot once a year. There is no limit on how much the member may withdraw from the savings pot, however the minimum withdrawal amount is R2 000. That means a member must have a balance of R2 000 or more in the savings pot to make a withdrawal. Note that all withdrawals will be taxed at a member's marginal tax rate. This means a member will receive the funds, less tax.

Members are encouraged to only withdraw these funds for emergencies as any withdrawal will reduce their retirement outcomes. If a member withdrew the full value of the savings pot each year, a member would reduce their benefit by four months for every one year of pensionable service. This would significantly reduce the gratuity paid at retirement. The withdrawal will also be fully taxable at the members marginal tax rate.

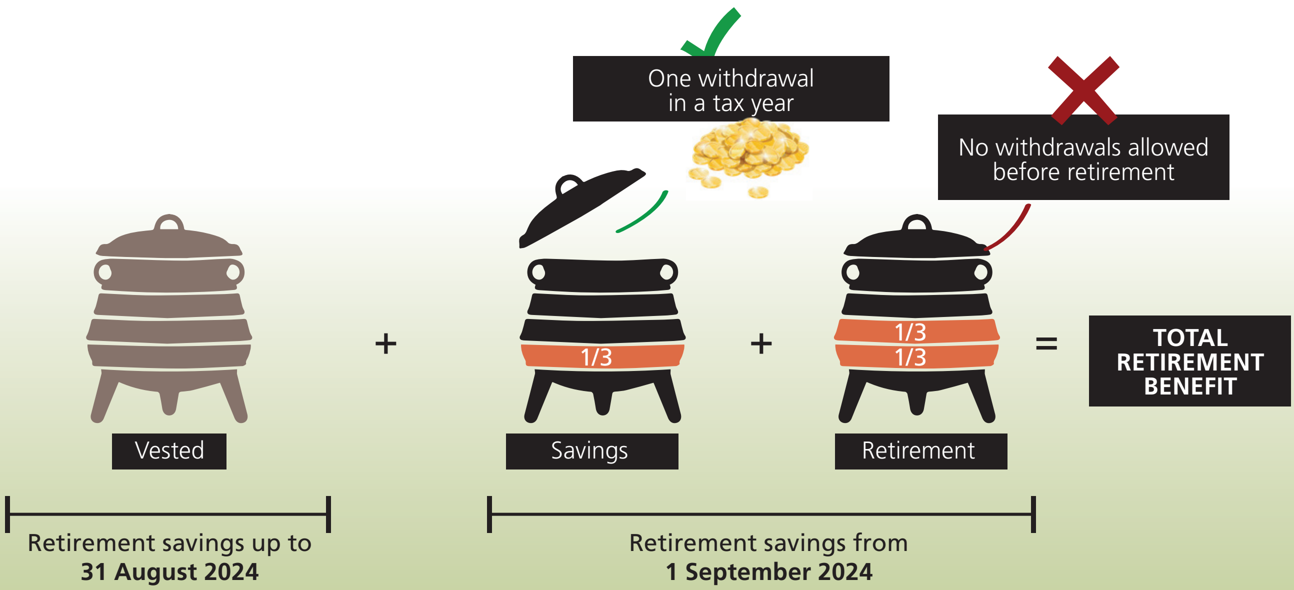


Protecting your retirement

The funds in the retirement pot will not be accessible before retirement. This will ensure that when members resign or change jobs, they do not deplete the funds required for their retirement years. Prior to retirement, these funds will only be available upon death or ill-health. If a member resigns or is retrenched, they would have access to their vested pot and savings pot, however the retirement pot will be preserved within the GEPF and will be paid as a deferred pension once the member retires. Alternatively, a member could opt to have the full benefit transferred to an approved retirement fund.

Protecting your vested service

The Two-Pot Retirement System will only affect future contributions and benefits. The years of pensionable service at the 31 August 2024 will be protected and the same rights will be retained. This is known as your vested service and commonly referred to as the "vested pot". This means that if you had to resign from the GEPF you would still be able to withdraw the value of your vested service. In fact, your vested pot is payable to you on all forms of exit. The value of the vested service will be based on existing GEPF rules and will be determined by salary and actuarial factors.



VESTED POT	SAVINGS POT	RETIREMENT POT
Vested service is equal to years of pensionable service up to 31 August 2024	• **FOUR MONTHS OF EVERY YEAR** of pensionable service will be allocated to savings service.	**EIGHT MONTHS OF EVERY YEAR** of pensionable service will be allocated to retirement service.
No new contributions/years of service will be allocated to **vested pot**	• **SEED CAPITAL EQUAL TO 10% OF RETIREMENT BENEFIT TO A MAXIMUM OF R30 000** will be allocated to the savings pot.	**NO WITHDRAWAL UNTIL RETIREMENT** even if you resign or are retrenched.
Fully accessible at resignation after 1 September 2024	• **MEMBERS MAY WITHDRAW FUNDS FROM THE SAVING POT ONCE A YEAR** if balance exceeds R2 000.	If member resigns, **ALL BENEFITS CAN BE TRANSFERRED TO AN APPROVED RETIREMENT FUND OR RETIREMENT SERVICE YEARS** preserved with GEPF as deferred pension.
Years of vested service will be used in both calculation of gratuity and annuity income at retirement.	• **ALL WITHDRAWALS WILL BE TAXED** at the member's marginal tax rate.	

RESIGNATION – POST 1 SEPTEMBER 2024

Don't panic – you can still access your retirement fund

There is a great deal of misunderstanding around what happens to your pension fund should you resign after the implementation of the Two-Pot Retirement System on 1 September 2024.

The most important point to remember is that benefits earned up to 31 August 2024 do not form part of the new two pot system. The Two-Pot Retirement System only affects benefits earned from 1 September 2024.

This means that any retirement benefits earned up to 31 August can still be accessed if you resign after 1 September 2024.

All benefits earned until 31 August 2024 will be allocated to the vested pot, which is based on your period of service up to that date ("**vested service**").This means that if you were to resign from the GEPF after 1 September you would still be able to withdraw the value of your vested pot. This will be based on years of service until 31 August 2024 and will be determined by salary and actuarial factors. It would therefore grow in value each year based on both your salary increases and actuarial factors.

However, apart from the seed capital (see next page) the funds in the vested pot are not accessible while still a member of the fund. During employment, active members will only have access to benefits accumulated in the savings pot.

Example of a withdrawal on resignation

A member resigns on 1 September 2025, a year after the implementation of the Two-Pot System. On 31 August 2024 the member had 15 years of pensionable service. The member has accumulated a further one year of service by 1 September 2025. This additional year of service has been divided with two-thirds (8 months) allocated to the Retirement Pot and one-third (four months) to the Savings Pot

- Vested pot would reflect 15 years of pensionable service.
- Retirement pot would reflect eight months of pensionable service.
- Savings pot would reflect four months of pensionable service.

The rand value of the benefit would be based on the salary and actuarial factors which are reflected in the benefit statement.

On resignation, the member has the option to transfer the entire benefit from all three pots to an approved retirement fund which includes a pension preservation fund. In this case, no tax would apply.

If a member wishes to withdraw the pension as cash, the member would be entitled to withdraw:

- the full benefit from the vested pot (equivalent to 15 years of pensionable service);
- plus, the full benefit in the savings pot (four months of pensionable service).

The eight months of pensionable service in the retirement pot will be preserved within the GEPF and will be paid as a deferred pension once the member retires. During the period of deferment, the deferred pension will be increased with the pension increases granted to pensioners of the fund.

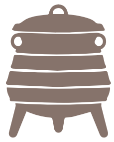
Taxation of withdrawal

When you resign, both the vested pot and the savings pot will be taxed according to the Withdrawal Benefits tax table. This is a sliding scale where the first R27 500 of the withdrawal is tax-free, after which tax applies on a sliding scale from 18% up to 36% depending on the lump sum benefit. For example, if the actuarial interest from the vested pot and savings pot is R1 020 000, then approximately R206 910 in tax would be deducted.

This is why it is preferable to transfer the benefit to an approved retirement fund to avoid taxation and secure your retirement.

Full benefit of all three pots can be transferred to an approved retirement fund tax-free

VESTED POT
If taken as cash:
Full value can be taken and taxed at Withdrawal Benefit tax table



SAVINGS POT
If taken as cash:
Full value can be taken and taxed at Withdrawal Benefit tax table

RETIREMENT POT
Cash withdrawal not allowed:
Preserved within the GEPF and paid as a deferred pension once the member retires (if the balance at retirement is less than R165 000 then this will be paid as a lumpsum)

Member question

HOW WILL THE WITHDRAWAL OF THE SEED CAPITAL AFFECT MY YEARS OF SERVICE?

On 1 September 2024 an amount equal to 10% of your existing fund benefit to a maximum of R30 000 will be automatically transferred to your savings pot. This is known as "seed capital".

For example, if your fund value (actuarial interest) is R200 000 then an amount of R20 000 will be transferred. If your fund value is R500 000, then only the maximum of R30 000 will be transferred to your saving pot.

For illustration purposes, this seed capital may represent five months of pensionable service. This would then reflect as a transfer of five months of vested service to your savings pot. This means that at 1 September your saving pot would reflect five months of savings service, but your vested service has reduced by five months.

If you chose to withdraw the funds from your saving pot, then your savings service will be reduced by five months. This will reduce the value of your fund (actuarial interest) but will also impact your gratuity at retirement which will include the years of saving service in the calculation.

HOW SAVING POT WITHDRAWALS AFFECT YOUR RETIREMENT

Things to consider before you withdraw your pension savings under the Two-Pot Retirement System:

The new Two-Pot Retirement System will improve retirement outcomes while providing members access to a portion of their retirement savings prior to retirement.

Many government employees facing a financial crisis believe their only solution is to risk unemployment by resigning to access their pension benefits. Therefore, by allowing access to a portion of these retirement savings once a year, members will have access to financial relief should they require it, without having to resign.

However, any withdrawal from the savings pot prior to retirement will reduce the member's gratuity at retirement. It will also be taxed as part of the member's personal income tax.

This is why withdrawing funds prior to retirement is not ideal and should only be considered if the member is facing a serious financial crisis.

How the savings pot works

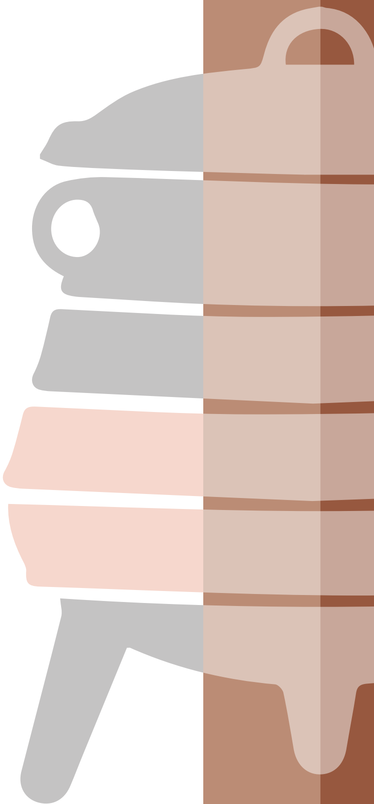
As from 1 September, one-third of pensionable service will be allocated to a savings pot. This pensionable service will be referred to as savings service. That means for every year of pensionable service, four months will be allocated to savings service.

In addition, on 1 September seed capital to a maximum of R30 000 will be allocated to the saving pot. (see page 3)

A member is allowed to withdraw the value of the funds in the savings pot prior to retirement. A member may make a partial or full withdrawal of the funds once a year. The only limit is that the member must withdraw a minimum of R2 000, which means the balance in the fund must be at least R2 000.

There is no cap on how much the member can withdraw. For example, if a member makes no withdrawal for five years, the member can withdraw the full balance that has accumulated in the savings pot. It is not limited to that year's contributions.

If a member makes withdrawals prior to retirement, this will reduce the number of saving service years. Years of savings service accumulated in the savings pot are used towards calculating the gratuity that is paid to a member when they retire.



Example

A member has 15 years of pensionable service on 31 August 2024. This is retained as vested service, and the same rules apply to these funds as prior to 1 September 2024.

The member has accumulated a further one year of service by 1 September 2025. This additional year of service has been divided with two-thirds (equal to 8 months) allocated to the retirement pot and one-third (equal to four months) to the savings pot.

This means the member now has 16 years of pensionable service divided as follows:

- Vested pot would reflect 15 years of vested service.
- Retirement pot would reflect eight months of retirement service.
- Savings pot would reflect four months of savings service.

Reducing years of service

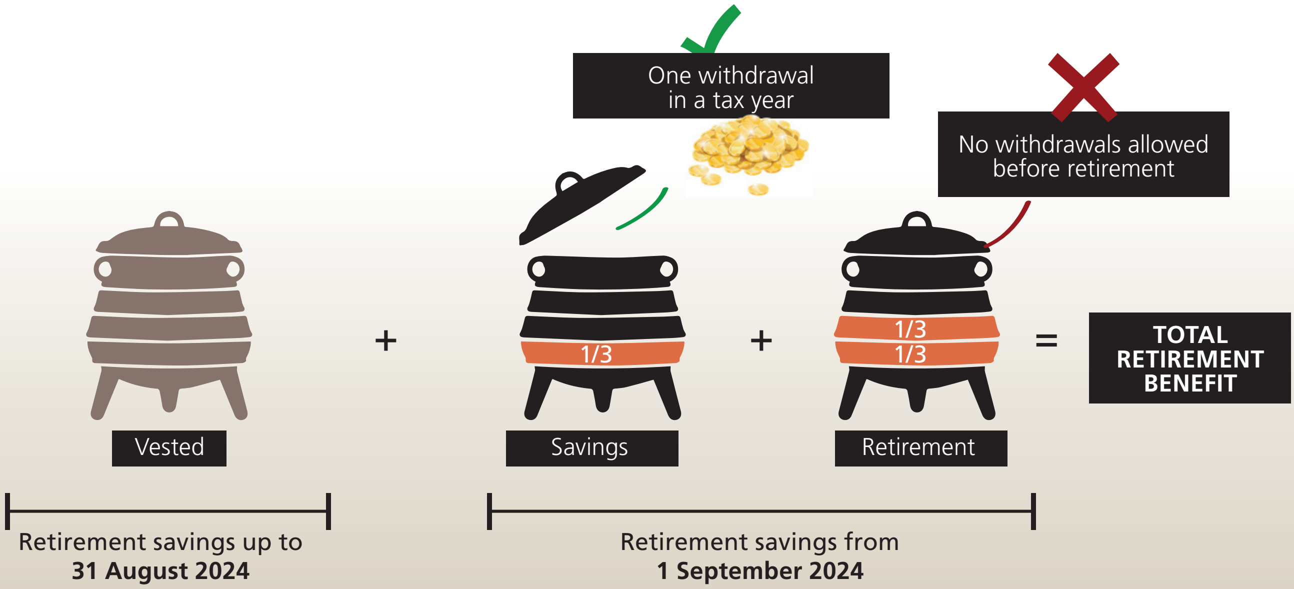
If the member withdrew the four months of saving service, the number of pensionable years of service reduces from 16 years to 15 years and eight months. This in turn reduces the benefit that they are entitled to.

Reducing benefit value

Let's assume that the value of the fund (the actuarial interest) is R873 000 of which the four months of saving service equals R18 150. If the member withdrew the R18 150 (equivalent to four months of service), then the value of the fund would reduce to R854 850.

Reducing retirement gratuity

At retirement, the years of saving service are used towards calculating the lump sum gratuity while the years of retirement service are used towards calculating the annuity income. If the member has drawn from the savings pot, this will reduce their lump sum gratuity but not the annuity income.



Impact of withdrawals if member works for a further 15 years after 1 September 2024.

MEMBER DOES NOT WITHDRAW SAVINGS	MEMBER WITHDRAWS EACH YEAR
At retirement: 30 years pensionable service	**At retirement: 25 years pensionable service**
15 years vested service	15 years vested service
10 years retirement service	10 years retirement service
5 years savings service	0 years savings service
Gratuity calculated on 20 years of service	**Gratuity calculated on 15 years of service**
15 years vested service	15 years vested service
5 years of saving service	0 years of saving service
Annuity calculated on 25 years of service	**Annuity calculated on 25 years of service**
15 years vested service	15 years vested service
10 years retirement service	10 years retirement service

How withdrawals will be taxed

Any funds withdrawn from the savings pot will be taxed according to the member's personal income tax rate (except on retirement). In practical terms, the fund will receive a tax directive from SARS and will be required to retain the tax portion of the withdrawal and pay it directly to SARS.

Example

A member withdraws the seed capital of R30 000.

If the member has an annual taxable income of R250 000, the R30 000 withdrawal is added to their taxable income.

The member is now taxed on an annual income of R280 000 (R250 000 + R30 000).

The member will pay approximately 26% tax on the R30 000 which is equal to R7 800.

R30 000 – R7 800 tax = R22 220 net payment

If the member has an annual taxable income of R550 000, the R30 000 withdrawal is added to their taxable income.

The member is now taxed on an annual income of R580 000 (R550 000 + R30 000)

This means the member will pay approximately 36% tax on the R30 000 which is equal to R10 800 R10 800.

R30 000 – R10 800 = R19 200 net payment

How the seed capital works

On 31 August 2024 the GEPF will calculate the benefits of the member's fund. An amount equal to 10% of the benefit to a maximum value of R30 000 will be automatically transferred to the saving pot.

Example:

- If a member has a benefit value of R100 000, an amount equal to 10% of the fund (R10 000) will be transferred to the savings pot.
- If the member has a benefit value of R600 000, the 10% would exceed the maximum amount and only R30 000 will be transferred to the savings pot.

The amount that is not seeded will be retained in the vested pot

If the seed capital is R2 000 or more, these funds are available for withdrawal immediately; however, they can be left in the savings pot and can be withdrawn at any time in the future or at retirement. Remember, you have the option to withdraw but it is not an obligation.

HOW TWO-POT AFFECTS YOUR RETIREMENT

GEPF™
your investment, your future

It is important to understand how the different pots will be used to calculate benefits at retirement

The new Two-Pot Retirement System will improve retirement outcomes while providing members access to a portion of their retirement savings prior to retirement. This is done by dividing years of pensionable service between savings service and retirement service.

Years of **SAVINGS SERVICE** will accumulate in the savings pot and **RETIREMENT SERVICE** in the retirement pot.

Savings pot: The funds earned in the savings pot will be accessible before retirement. At retirement, any funds (service years) that have not been withdrawn will be used towards calculating a member's lump sum gratuity at retirement. The gratuity will be based on three times 6.72% of salary for each year of savings service.

Retirement pot: Funds in the retirement pot cannot be accessed before retirement and must be used to purchase an annuity income at retirement. The pension will be based on 1.5 times 1/55 of salary for each year of retirement service. In addition, the supplementary pension of R360 will be payable.

Vested pot: The new treatment of pensionable service does not affect your existing retirement benefits earned prior to 1 September 2024. The pensionable years of service accumulated up to 31 August are referred to as vested service and will be ring-fenced in a vested pot with the same rules as applied prior to 1 September 2024. The vested pot will provide both a gratuity and a pension as before. The gratuity will be based on 6.72% of the salary and vested service, and the pension will be based on 1/55 of the salary for each year of vested service.

At retirement these "**pots**" will all play a different role in how your benefits are determined.

Now let us look at the benefits that would have been paid under the current system. The member would have a total of 30 years of pensionable service at retirement and would be entitled to the following benefits:

A gratuity of R604 800 (= 6.72% x 30 x 300 000) and a pension of R163 996.36 (= 1/55 x 30 x 300 000 + 360).

Example

A member has 25 years of vested service (up to 31 August 2024), (ignoring seeding), and retires five years later at 1 September 2029. Let's assume that the member has a final salary of R300 000.

At retirement the member has 30 years of pensionable service:

- 25 years vested service
- Three years and four months of retirement service
- One year and eight months of savings service (assuming no withdrawals)

Gratuity

The member's gratuity will be calculated on the years of vested service and the years of savings service.

For example,

From the vested pot, a gratuity of R504 000 (= 6.72% x 25 x 300 000) will be payable. From the Savings Pot, a gratuity of R100 800 (= 3 x 6.72% x 1.667 x 300 000) will be payable. This means that a total gratuity of R604 800 will be payable on retirement.

The member's annuity will be based on pensionable service made up of years of vested service and years of retirement service. For example,

From the vested pot, an annual pension of R136 363.64 (1/55 x 25 x 300 000) is payable. From the retirement pot, an annual pension of R27 632.73 (= 1.5 x 1/55 x 3.333 x 300 000+360) would be payable. This means that the total annual pension that is payable is R163 996.36.

Now let us look at the benefits that would have been paid under the current system. The member would have a total of 30 years of pensionable service at retirement and would be entitled to the following benefits:

A gratuity of R604 800 (=6.72% x 30 x 300 000) and a pension of R163 996.36 (= 1/55 x 30 x 300 000 + 360).

As can be seen, if you do not make any withdrawals from the savings pot, you will get the same gratuity and pension as if the two-pot system had not been implemented.

Now let us look at what would happen if the member cashed in on their savings component before retirement. Remember, if the member has withdrawn the funds from the savings pot prior to retirement, then the years of service in the calculation will be reduced. So if the member had exhausted the balance in the savings pot at the time they retire, they would now only receive a gratuity of R504 000. They would still receive a total pension of R163 996.36 per year. As can be seen, any savings withdrawal benefit made from the savings pot will reduce the gratuity you will receive at retirement.

Early retirement and the Two-Pot System

The same formula will apply to early retirement in terms of how the gratuity and annuity are calculated based on vested service, savings service and retirement service.

The only difference is that for early retirements, the gratuity and pension benefits are reduced further by the early retirement penalty.

TAXATION AT RETIREMENT

Gratuity:

At retirement, the retirement tax tables would apply.

The first R550 000 of the gratuity would be paid tax-free

After which a sliding scale applies

Annuity income:

A member's annuity income will be taxed according to the personal income tax tables

Taxpayers above the age of 65 have a lower personal tax rate

MEMBER QUESTIONS

How does the Two-Pot Retirement System work if I get divorced?

The GEPF can only carry out a court order. The fund would need to receive a divorce court order to pay out the member's pension interest to the ex-spouse. Once the new retirement system is implemented, the funds will be withdrawn equally from each pot. For example, if the ex-spouse is entitled to 50% of the retirement benefit, this would entitle the ex-spouse to 50% of the vested pot, 50% of the retirement pot, and 50% of the savings pot.

How will death benefits be calculated?

If a member passes away in service, on death all pots are available to be distributed to the deceased beneficiaries according to the nomination list

TWO-POT SYSTEM
CLAIMING PROCESS

Members of the GEPF will use self-service app and portal to submit their claims for two-pot effective from 1 September 2024, therefore members are requested to download the app from their respective play stores if they are going claim from their savings pot. Below are the steps to follow:

TWO- POT WITHDRAWAL PROCESS FOR SELF-SERVICE ACTIVE USERS

STEP 1:
Open the Self-Service App or web!

STEP 2:
Put in your username and password!

STEP 3:
If you want to submit, review historical or track your claim, you must click the "**claims**" button.

STEP 4:
You may submit a new claim by clicking on "**Submit a Claim**."

STEP 5:
After clicking the "**submit claim**," you will be able to see the two-pot system applicable rules.

STEP 6:
You will see an amount available for withdrawal from the savings pot. To continue with the withdrawal the member must accept the terms and conditions.

STEP 7:
You can click on the "**withdrawal calculator**" to see how a withdrawal on your saving pot will impact your years of services.

STEP 8:
You can click on the "**email icon**" to request for a withdrawal quote to be sent to their email address.

STEP 9:
You need to click on the confirmation button to confirm the accuracy of your banking details. To continue with the withdrawal, you must accept the terms and conditions.

STEP 10:
You are required to confirm your income tax number. If the income tax number indicated is incorrect, you can correct the income tax number before you submit. To continue with the withdrawal, you must accept the terms and conditions.

STEP 11:
You can click on the "**continue button**" and your claim will be submitted.

STEP 12:
Payment will take place within 60 working days upon submission of a claim.

TWO-POT WITHDRAWAL PROCESS FOR NEW SELF-SERVICE USERS

Step 1:

You should download the GEPF Self-service App on various App stores depending on your device.

Step 2:

Register your profile on the self-service app, with up-to-date personal information (cell phone number and email address)

Step 3:

You will receive an OTP and temporary password on your cell phone number or email address.

Step 4:

You must use the temporary password to login and change the password to a new one.

Step 5:

If you want to submit, view historical or track your claim, you must click the "**Claims**" button, then follow subsequent steps starting from Step number 5 on the **Two-Pot Withdrawal Process for Self-Service Active Users above.**