

Legal update 1/2024

New withdrawal options on resignation, dismissal, or retrenchment from 1 September 2024

The new two-pot retirement system will take effect on 1 September 2024. It will bring about a shift in when and how members can access their benefits in the FundsAtWork Umbrella Funds, specifically when a member withdraws from FundsAtWork, ie on resignation, dismissal, or retrenchment.

From 1 September 2024, a member's retirement savings will be divided into three components:

- **Vested component** will be their accumulated retirement savings in FundsAtWork on 31 August 2024.
- **Savings component** into which FundsAtWork will do a once-off transfer of 10% of a member's vested component on 31 August 2024, or R30 000, whichever is lower. From 1 September, 1/3rd of a member's monthly contribution (after deducting the insurance premiums and fees) will be paid into this component.
- **Retirement component** into which 2/3rds of a member's monthly contribution (after deducting the insurance premiums and fees) will be paid.

New withdrawal options

Under the new two-pot retirement system, these will be the changes to members' withdrawal options on resignation, dismissal, or retrenchment:

Splitting of retirement savings

A member's retirement savings on withdrawal is still one benefit, and they are not allowed to split their retirement savings when they transfer to another fund or choose to become a paid-up member. This means that:

- if a member chooses to leave their savings component in FundsAtWork and become a paid-up member, they must also leave their retirement component and vested component (if not taken as cash) as a paid-up benefit in FundsAtWork and cannot transfer them to another fund.
- if a member chooses to leave their retirement component in FundsAtWork and become a paid-up member, and they do not choose to take their savings and/or vested component in cash when they withdraw from FundsAtWork, they must also become a paid-up member for their savings and vested components in FundsAtWork and cannot transfer them to another fund.
- if a member chooses to leave their vested component in FundsAtWork and become a paid-up member, they must also become a paid-up member for their savings component (if not taken in cash) and retirement component in FundsAtWork and cannot transfer them to another fund.

Cash lump sum options

From 1 September 2024, members will no longer be able to take their total retirement savings in cash when they withdraw from FundsAtWork:

- **Vested component:** Members can still take their vested component in cash, and it will be taxed at the withdrawal lump sum tax table, meaning they could potentially get a tax-free amount of R27 500. If a member withdraws from FundsAtWork because they are retrenched, the cash amount they take from their vested component will be taxed at the retirement lump sum tax table, meaning they can potentially get a tax-free amount of R550 000.
- **Savings component:** Members can take their savings component in cash if they have not yet taken an amount in cash from their savings component during the same tax year of their withdrawal from FundsAtWork **and** the balance in their savings component is above R2 000. Members will also be able to take their **total** savings component in cash if they had already taken an amount in cash from their savings component during the same tax year of their withdrawal from FundsAtWork but the balance in their savings component is less than R2 000. This means that if a member **did** take any amount in cash from their savings component during the same tax year as their withdrawal from FundsAtWork **and** their remaining balance is above R2 000 they cannot take their savings component in cash and will have to wait until the next tax year. Withdrawals from the savings component will be taxed at the member's marginal tax rate.
- **Retirement component:** Members cannot take any portion of their retirement component in cash and must preserve their full benefit in this component until retirement. This means the only options available for their retirement component are for them to become paid-up in FundsAtWork or to transfer it to their retirement component in another fund.

Paid-up benefit options

From 1 September 2024, members can choose that **only a portion** of their retirement savings becomes paid-up in FundsAtWork. They can take a portion of their savings component as cash and leave the remaining balance as a paid-up benefit in FundsAtWork or take the total or a portion of their savings component and their total vested component in cash and leave their retirement component as a paid-up benefit in FundsAtWork. If a member chooses for their vested component to become paid-up, they must leave their **total vested component** as a paid-up benefit in FundsAtWork and cannot choose to take a portion in cash and leave the rest as a paid-up benefit.

- **Vested component:** A member will still be able to take their total paid-up vested component in cash at any time before retirement.
- **Savings component:** If a member chooses for their savings component to become paid-up, they can still take the total remaining balance or any portion in cash in the next tax year(s) until they retire. A member will not be forced to leave their savings component as a paid-up benefit in FundsAtWork until they retire.
- **Retirement component:** If a member's retirement component becomes paid-up, they cannot take it in cash any time before they retire, and it will have to remain as a paid-up benefit in FundsAtWork until they retire or transfer it to their retirement component in another fund.

Transfer options

From 1 September a member will not be able to split their retirement savings on transfer and they must either:

- transfer **all three of their** components in FundsAtWork to the **same** new fund if they did not choose to take their savings and/or vested components in cash, or
- transfer a **proportionate share** of each of their three components to more than one fund, if they did not choose to take their savings and/or vested components in cash.

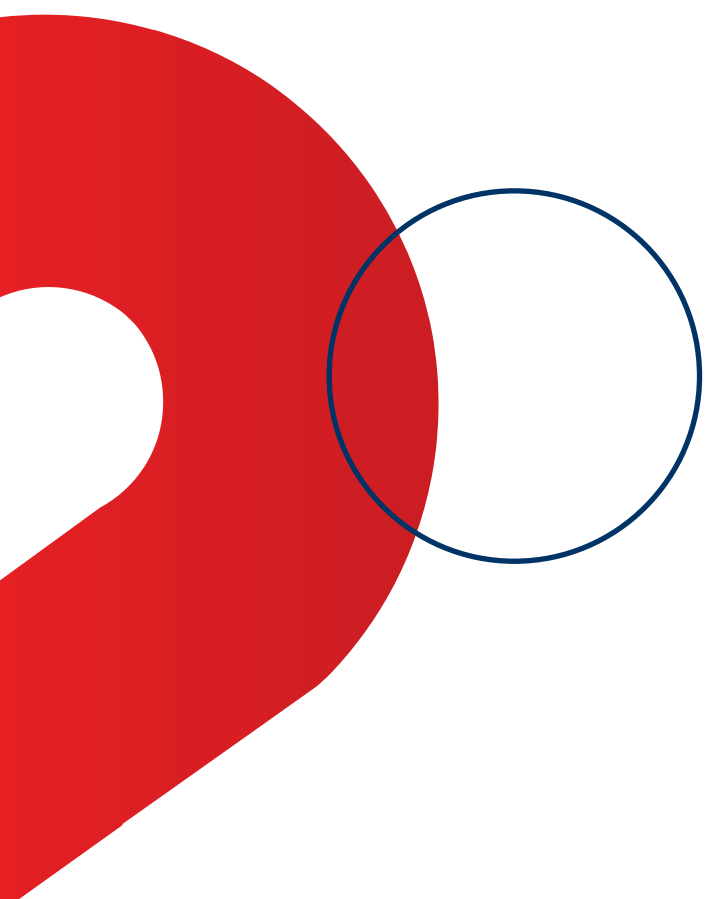
For example, a member cannot choose to transfer their vested component to their new employer's fund and their savings and retirement components to a preservation fund.

A member may only transfer their:

- savings component in FundsAtWork to their savings component or retirement component in their new fund,
- vested component in FundsAtWork to their vested component or retirement component in their new fund, and
- retirement component in FundsAtWork to their new retirement component in their new fund.

Examples

1. A member can take their total savings and vested components in cash and keep their total retirement component in FundsAtWork and become a paid-up member.
2. A member can take their total savings component as cash and leave their vested and retirement components in FundsAtWork as a paid-up benefit.
3. A member can take their total, or a portion of their savings component in cash and transfer the remaining balance in their savings component, if any, and their vested and retirement components to another fund.
4. A member can take their total vested component in cash and leave their savings and retirement components in FundsAtWork as a paid-up benefit.
5. A member can take their total vested component in cash and transfer their savings and retirement components proportionally to different funds.
6. A member can take a portion of their vested component in cash and transfer the remaining balance and total savings and retirement components to another fund.



Disclaimer

Copyright reserved © Momentum Metropolitan 2024 - Momentum Corporate is a part of Momentum Metropolitan Life Limited (registration number 1904/002186/06), a wholly owned subsidiary of Momentum Metropolitan Holdings Limited. Momentum Corporate is the underwriter and benefit administrator of the FundsAtWork Umbrella Pension and Provident Funds. The document is for illustrative purposes only and does not constitute tax, legal, accounting, or financial advice. You rely on the contents at your sole discretion. We recommend that you consult with a financial adviser before making any changes to your group employee benefits. Momentum Metropolitan Holdings Limited, its subsidiaries, including Momentum Metropolitan Life Limited, will not be liable for any loss, damage (whether direct or consequential) or expenses of any nature which may be incurred because of, or which may be caused, directly or indirectly, to the use or reliance on this publication. Terms and conditions apply.