DURBAN PENSION FUND

Fund Registration Number: 12/8/32435

Registered Address
10 Torsvale Crescent
Torsvale Park
La Lucia Ridge Office Estate
La Lucia
4320

INFORMATION FOR MEMBERS ON PROPOSED CHANGES TO THE LAW

ON 1 SEPTEMBER 2024 - NEW "TWO POT SYSTEM"

On 1 September 2024, the law is changing to allow members to access part of their retirement benefits without leaving employment. The proposed changes are referred to as the "**two pot system**".

The new system does not apply to pensioners already receiving a pension from the Fund.
The new system only applies to active members contributing to the Fund and to deferred pensioners.

The new system mostly applies to contributions paid to, or pensionable service earned, in retirement funds after the implementation date (1 September 2024). There will be very little change to what has already built up in the fund before the new legislation (see the explanation of "seeding capital" below).

The "two pot system" will require pensionable service after the effective date of the new legislation (1 September 2024) to be split into two components. One-third of your pensionable service will be allocated to a "**savings component**" and the other two-thirds will be allocated to a "**retirement component**".

After the new legislation comes into effect, even if members resign or are dismissed from employment, they will not be able to take money out of the new "retirement component" until retirement, when these funds must be used for their pension.

The proposal is that, after the effective date of the new legislation, members will be able to withdraw money from their "savings component" once a year without leaving employment or the Fund. This is designed to assist with financial emergencies to avoid the situation of members resigning from their jobs to be able to access their retirement savings. Withdrawals from the "savings component" will be taxed as income at marginal rates. If you decide to withdraw cash from your "savings component" your pensionable service in the Fund will be reduced by the equivalent of the value withdrawn.

On the date the law changes, there will be a once-off transfer to the member's "savings component" of a portion of the member's value already built up in the pension fund immediately before the effective date of the new legislation. This "seeding capital" will be the lesser of 10% of the member's existing value and R30,000.

Other than the transfer of this "seeding capital" out of the member's fund value that has already built up at the effective date of the new legislation, there will be **no changes to the vested rights of members**.

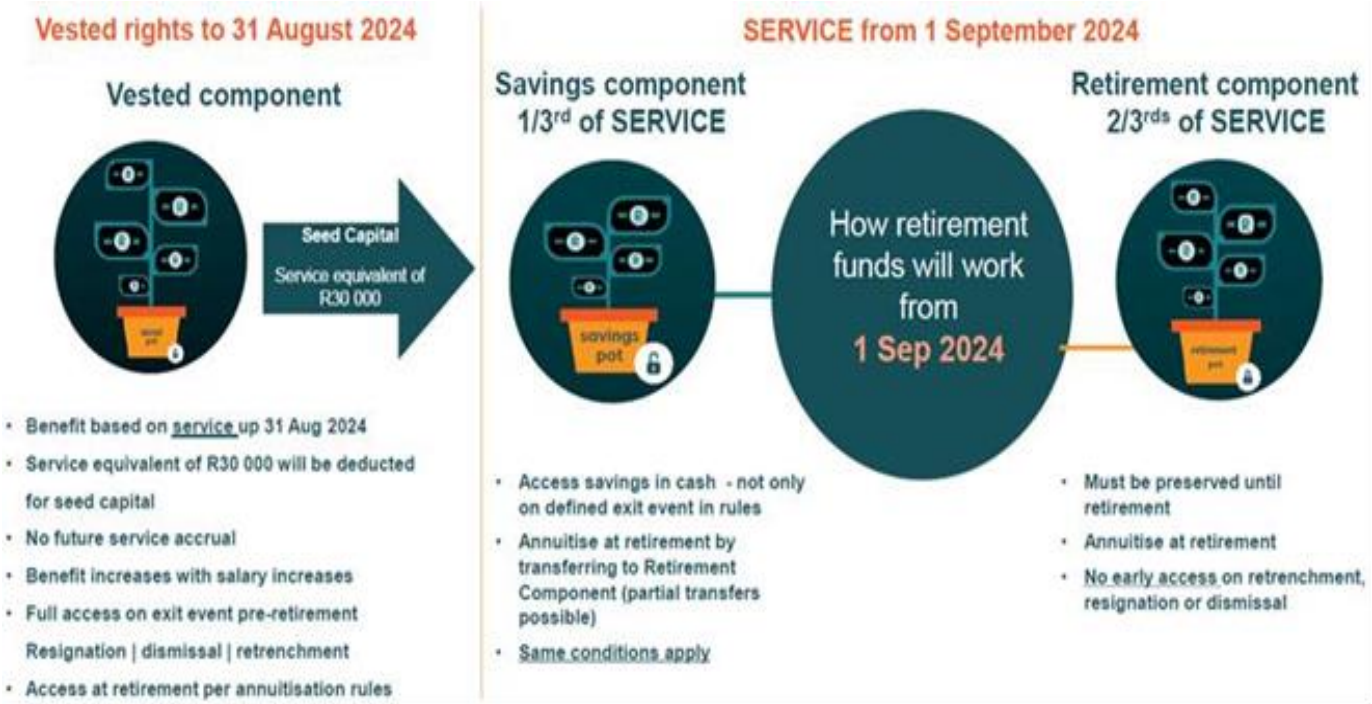
Chairperson: DA Rogers
Principal Officer: S Davidson
Employer Appointed Trustees: NL Khuzwayo, NP Hlomuka, CN Sisoka, P Pillay, N Madlala, S Mbele
Member Elected Trustees: DA Rogers, KA Kumar, G Horstman, KA Goodsell, E Seedat, C Nagooroo

For defined benefit funds such as the Durban Pension Fund, the Rules of the Fund will have to be amended so as to now split each active member's pensionable service into three parts, which in total will be your pensionable service, as follows.

(1) **Vested Component** for service up to 31 August 2024: this will be reduced by the value of the service that is transferred as the "seeding capital" to the "savings component" on 1 September 2024 (and may be adjusted if you get divorced later). The benefits attributable to your **Vested Component** can be transferred or taken in cash if you resign. At retirement you will still be able to take up to one-third of the pension from your Vested Component in cash. The rest must be used to provide your monthly pension.

(2) **Retirement Component** being 2/3rds of service earned after 1 September 2024, adjusted by the impact of any future divorce payments. The benefits attributable to your **Retirement Component** cannot be taken in cash before you retire, and at retirement can only be used for your pension.

(3) **Savings Component**, being 1/3rds of service earned after 1 September 2024. This component will open on 1 September 2024 with the seeding service transferred from your Vested Component at 31 August 2024. The Fund Actuary will have to do these calculations. You may take the value of your Savings Component in cash at any time, subject to certain rules (only one withdrawal per year; minimum withdrawal of R2 000). This **Savings Component** will be reduced every time you take a cash withdrawal (and may be adjusted if you get divorced). At retirement you will still be able to take any balance in your Savings Component in cash, in addition to one-third of your Vested Component.



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It is important to remember that the more cash you take over the years before you retire, the less you will be able to take when you retire. Withdrawals from the “savings component” should be limited as much as possible. Such withdrawals will be taxed at high tax rates and will be subject to administrative charges. These taxes and charges will reduce the amount of money that is paid to you out of your “savings component” if you make a cash withdrawal.

At this stage it seems that the Fund Actuary will need to undertake a manual calculation for each member that makes a cash withdrawal from the “savings component”, so a manual process will need to be completed for such withdrawals, probably facilitated by the HR Liaison Officers of eThekwini Municipality.

We will keep members updated as the detail of the new law and administrative processes to be followed become more certain.

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