The Two Pot Retirement System
- Part 2 of 3

The City of Johannesburg Pension Fund ('the Fund') is distributing a series of communications to **in-service members** ('members') to provide detailed information on the Two Pot Retirement System ('Two Pot System').

It is important that you receive all **three (3) parts of the communications** to fully understand how you will be impacted by the Two Pot System.

Part 1 –	The basics and what needs to be done.
Part 2 –	**The impact on your benefit following different events.**
Part 3 –	Applying for a Savings Withdrawal.

This is Part 2 of the communications that addresses how your benefit in the Fund will be impacted by different events. For example, if:

- You retire in the Fund and become a Flexible Annuitant; or
- You retire outside the Fund by transferring your benefit to the Phumula Retirement Fund, or another external product provider; or
- You withdraw from the Fund because you resign from your employer, you are dismissed, or you are retrenched; or
- You pass away while in-service.

Part 2 also considers transfers between your pots in the Fund.

The Fund offers assistance to members throughout their journey with the Fund and encourages members to contact the Pension Fund Office if they have any questions.

You are encouraged to read the communications carefully and to contact the Pension Fund Office should you have any questions.

admin@cojpensionfund.co.za / 011 551 9400

Getting a Savings Withdrawal from your SAVINGS POT while you are still employed

You **do not need** to leave employment to get access to your **SAVINGS POT**!

There are a number of important things you need to know before claiming:

1. You will pay tax at your marginal tax rate on a Savings Withdrawal claim
2. You will pay an administration fee for processing your claim
3. You will not be able to claim more than once in any tax year (in other words, no more than once a year between 1 March and 28 February of the following year)
4. You may not claim if the value of your **SAVINGS POT** is less than R2,000 (the minimum Savings Withdrawal is R2,000).

One of the most important points above that we highlight when taking a Savings Withdrawal, is that this benefit is **taxed** by SARS. It is taxed at your marginal tax rate. We show what this means in the table below:

Annual taxable income*	Marginal tax rate
Less than R237,100	18%
Between R237,101 and R370,500	26%
Between R370,500 and R512,800	31%
Between R512,801 and R673,000	36%
Between R673,001 and R857,900	39%
Between R857,901 and R1,817,000	41%
Above R1,817,001	45%

*Note that this excludes the value of a Savings Withdrawal. If you are close to the top of the income band, then the Savings Withdrawal may move you to the next income band and the next highest marginal tax rate.

The Fund is unable to advise members what their marginal tax rate will be because the Fund is not aware if members receive income from other sources.

The Fund's administrator will therefore apply for a tax directive from SARS and deduct the tax amount that is specified by SARS from the Savings Withdrawal.

Retiring from the Fund

If you choose **to retire** and become a Flexible Annuitant, or **transfer your CJPF benefit to the Phumula Retirement Fund**, or choose to **transfer to an external provider**, you will have the following options:

VESTED POT



The Two Pot System does not apply to your **VESTED POT**.

1. You <u>can</u> withdraw* up to 1/3rd of your **VESTED POT** in cash and the remainder will be transferred to your **RETIREMENT POT**.
2. You can transfer your **VESTED POT** to your **RETIREMENT POT** to increase your retirement benefit.

SAVINGS POT



1. You <u>can</u> withdraw* some or all your **SAVINGS POT** in cash.
2. You can transfer your **SAVINGS POT** to your **RETIREMENT POT** to increase your retirement benefit.

RETIREMENT POT



You <u>must</u> purchase a pension with your **RETIREMENT POT**

UNLESS

The combined value of your **RETIREMENT POT**
plus 2/3rds of your **VESTED POT**
is R165,000 or less –
you can then take your **RETIREMENT POT** in cash.

*Lump sums taken from your pots on retirement will be taxed according to the <u>retirement</u> lump sum tables

The retirement lump sum tables offer you more favourable tax rates (maximum of 36%) compared to your marginal tax rate (maximum of 45%) that will apply when you make Savings Withdrawals from your **SAVINGS POT** before retirement.

Withdrawing from the Fund

If you choose **to withdraw from the Fund** (resignation, dismissal or retrenchment), you will have the following options:

VESTED POT 	1. You <u>can</u> withdraw your **VESTED POT** in cash. This will be taxed according to the SARS withdrawal tax tables 2. You <u>can</u> transfer your **VESTED POT** to your vested pot in another fund. 3. You <u>can</u> keep your **VESTED POT** invested in the Fund and become a Preserver Member.
SAVINGS POT 	1. You <u>can</u> withdraw your **SAVINGS POT** in cash. This will be taxed according to the SARS income tax tables and is taxed at your <u>marginal</u> tax rate. 2. You <u>can</u> transfer your **SAVINGS POT** to your savings pot in another fund. 3. You <u>can</u> transfer your **SAVINGS POT** to your **RETIREMENT POT** to increase your retirement benefit.
RETIREMENT POT 	1. You <u>must</u> preserve your **RETIREMENT POT** until you retire. 2. You can become a Preserver Member in the Fund until you retire. 3. You can transfer* your **RETIREMENT POT** to your retirement pot in another fund.

Your VESTED POT will be taxed according to the SARS <u>withdrawal</u> tax tables. Your SAVINGS POT will be taxed at your <u>marginal tax rate</u>.

*If you choose to transfer your **RETIREMENT POT** to another fund, your **VESTED POT** and **SAVINGS POT** must also be transferred to the same fund if they are not taken in cash.

Death while in-service

The Two Pot System does not change the benefit paid by the Fund should you pass away while in-service (employed).

Your **FUND CREDIT** (including all three pots), plus your insured death benefit from Old Mutual, will be paid to your beneficiaries in terms of Section 37C of the Pension Funds Act (the legislation that regulates South African retirement funds).

Transfers between POTS

You can transfer funds from your **VESTED POT** and/or your **SAVINGS POT** to your **RETIREMENT POT**.

Any funds that you transfer to the **RETIREMENT POT** will not be available until you retire and must be used to purchase a pension.

It is therefore important that you consider this decision carefully because it can't be reversed.

Section 37D

The Two Pot System does not release members from their obligations in terms of Section 37D of the Pension Funds Act (the legislation that regulates South African retirement funds).

Section 37D of the Act ensures that members:

- are accountable to their partner during a divorce in terms of a Divorce Order
- pay maintenance to their child/children as per a Maintenance Order
- pay their employer for any loss caused by theft, dishonesty, fraud or misconduct (including legal fees).

All three of your pots will be reduced proportionally if the Fund is required to pay a Section 37D claim.

The Fund's administrator will check if a member is liable in terms of any of the above **before proceeding with a Savings Withdrawal payment**.

If a member is liable, the Fund's administrator will check to see if the value of the member's **FUND CREDIT** (**VESTED POT**, **SAVINGS POT** and **RETIREMENT POT**) is sufficient to cover both his/her liability and his Savings Withdrawal.

If yes, the Savings Withdrawal will be paid.

If not, the Savings Withdrawal application will be declined.