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“TWO-POT” SYSTEM: EARLY WITHDRAWAL

It is important to manage the expectation of members who are expecting money in their bank account on 1 March 2024. The possibility to withdraw a portion of your fund credit on 1 March 2024 is becoming rather slim, as the legislation has not yet been enacted. The Industry was invited to comment on the draft legislation and it seems like National Treasury will only respond to the Industry's comments by the end of November.

What needs to happen?

1. The legislation for the two-pot system needs to be enacted.
2. The Pension Funds Act needs to be amended to allow for early withdrawals, without members exiting their respective funds.
3. The Rules of the Fund must be amended AND approved by the Financial Sector Conduct Authority.

Important information for members to take note of prior to withdrawal:

1. Requests for the withdrawal from the savings component will only be available online on the administrator's website.
2. **No** manual forms will be available or accepted for this early withdrawal from the savings component.
3. Members have to ensure that contact details are updated with the administrator.
4. If a member applies online for the early withdrawal of the savings pot, a one-time pin number will be sent to the member's cell phone to complete the withdrawal request. If your contact details do not correspond with that of the administrator, you will not be able to make a withdrawal.

A member will apply online for the annual withdrawal, should he/she wish to make use of the option. Fields that are compulsory include your ID number, tax number and banking details, where after you will receive a one-time pin number on your cell phone, which you have to insert to enable the system to process your request.

How much may a member withdraw annually?

At this stage Treasury is suggesting a seed capital transfer from the vested component to the savings component equal to 10% of members' current fund credit up to a maximum of R25 000, which will be available for the annual withdrawal from March 2024, but only **IF** the rule amendments have been approved in time by the Financial Sector Conduct Authority. Thereafter the minimum annual withdrawal amount will be R2 000 with the maximum being the amount available in the savings component. This amount is subject to tax and admin fee deductions.

Members must also be aware of the following important information:

1. Members will be taxed at their marginal rates and the withdrawal amount will be added to your annual income at the end of the tax year.
2. This could have an increased effect on members' current tax bracket, which could result in a member being taxed at a higher tax bracket when completing their annual tax returns, due to the higher annual income when the annual withdrawal from the savings component is added to the annual salary. Instead of receiving a tax refund from SARS at the end of the tax year a member could owe SARS a tax amount.
3. If a member has any arrear tax payable to SARS and they opt for this annual withdrawal, SARS will recover the arrear tax from that amount, leaving the member with a much lesser amount than expected.
4. At this stage it seems likely if a pension backed home loan is granted to a member with either FNB or Standard Bank, that member will not be able to exercise the annual withdrawal in future.

Members who were 55 years and older on 1 March 2021 are exempted from the two-pot system.

Members must realize that this early withdrawal could have a negative impact on their expectation of the amount of money available as a lump sum at retirement, as they would forfeit investment return on the amount withdrawn.

Never underestimate the power of compound interest as this annual withdrawal will decrease your fund credit available at retirement. Members should be advised to speak to a financial advisor prior to making any early withdrawal.

The above information is based on the draft legislation, once the legislation has been enacted the final detail will be made available to our members.

Kind regards



Christine Seierlein
CHIEF EXECUTIVE OFFICER