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MUNICIPAL GRATUITY FUND
14 Bedfordview Office Park, 3 Riley Road, Bedfordview, 2007
Private Bag X1190, Bedfordview, 2008
Tel: (011) 450-1224/5 • Fax: 086 682 9178 / 086 678 7733 / 086 675 8586
Website: www.mymgf.co.za • FSCA Reg. No: 12/8/29256/2

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TWO-COMPONENT SYSTEM (TWO-POT): IMPLEMENTATION 1 SEPTEMBER 2024

The two-component system (widely known as the two-pot system) will be implemented on 1 September 2024. In previous news flashes referral was made to the two-pot system, it has been renamed to the two-component system. It is important that all members understand the process that will be followed by the administrator to ensure that members will have access to their savings component on 1 September 2024, as well as the process when applying for the early withdrawal of their benefit as allowed with the two-component system.

Different components:

From 1 September 2024 all members will have three components i.e. vested component, savings component and retirement component. On the administrator's system reference will be made to the Emergency Savings Component and not only savings component. The value of these three components added together will be referred to as the member's fund credit. The fund credit of all members, less the seed capital, as at 31 August 2024 will remain in the vested component. The August 2024 contributions received in September 2024 will also be invested in the vested component. The September 2024 contributions will be split one-third in the emergency savings component and the other two-thirds in the retirement component. The seed capital of 10% of the members' fund credit, as at 31 August 2024, up to a maximum of R30 000 will be transferred to the emergency savings component for withdrawal from 1 September 2024.

Withdrawal amount (Emergency Savings Withdrawal):

Members will be allowed to make one withdrawal from the emergency savings component every tax year, thus from March to February of each year. This once off withdrawal has a minimum amount of R2 000 per tax year and the maximum amount is the amount available in the emergency savings component. The once off seed capital transferred to the savings component on 1 September 2024 will be available for this withdrawal. It must be noted that on 31 August 2024 a member must at least have a fund credit of R20 000 for the 10% seed capital to amount to R2 000 and a fund credit of R300 000 or higher for the seed capital of R30 000 to be available, which will be transferred to the emergency savings component and available for immediate withdrawal. Members with a fund credit of less than R20 000 will not be in a position to make any withdrawal from the emergency savings component in September 2024, as the savings component must build up to at least R2 000 to allow for a withdrawal.

Important information

- You have to be registered on the Sanlam Portfolio App to enable you to exercise your withdrawal option. If you are not registered on the Sanlam Portfolio App, please do so immediately at **cp.sanlam.co.za** to avoid any disappointment.
- Check your contact details on the Sanlam Portfolio App to ensure that it is correct. If not, ask your Human Resources to correct the information online, only contact details supplied by the employer will be used to prevent possible fraud.
- It is voluntary to exercise this annual withdrawal option, it is not compulsory and should be considered carefully, as it will have a negative impact on your final retirement benefit.
- Members need to be registered tax payers to be able to withdraw from the emergency savings component, as the member's marginal tax rate will be applicable, the retirement tax tables are not applicable for this withdrawal.
- Withdrawals will only be online on the administrator's website and no manual forms will be accepted, thus important to ensure you are registered on the Sanlam Portfolio App.
- To prevent possible fraud, payment will only be made into a valid bank account provided by your employer, thus the same bank account your monthly salary is paid into.
- It is important to note that payment cannot be made into a joint bank account or into a third-party bank account, like your spouse or partner's bank account. The bank account must be in the name of the member, as the administrator will perform a bank validation, which will fail if the initials, surname and ID number do not match that of our member.
- If the banking details are not valid as per the above bullet then no withdrawal from the emergency savings component will be possible.
- Early withdrawals will lead to less money being available at retirement, do not under-estimate the power of compound interest. It is in the best interest of members to consult a financial advisor prior to making a withdrawal from the emergency savings component. A withdrawal should only be for financial emergencies.
- The replacement ratio calculated at 75% at retirement could be much less if withdrawals are done every tax year.
- This emergency withdrawal will not have an impact on the R550 000 tax free benefit at retirement.

- Tax and an admin fee will be deducted from the emergency withdrawal amount, thus each member will receive less than the actual emergency withdrawal amount requested. It is still uncertain if SARS will recover arrear tax via an IT88.
- Only one withdrawal is allowed in a tax year. If a member exercises the once off withdrawal from the emergency savings component and resigns in the same tax year, the balance in the emergency savings component, if more than R2 000 cannot be taken in cash, but will have to be transferred to a preservation fund, annuity or the next employer's savings component.
- Members who were 55 years and older as at 1 March 2021 (thus 58 years old now), are included in this legislation and at retirement will not be in a position to take the retirement component in cash. Only if the retirement component is less than the *de minimis* amount of R165 000 will it be available for a cash withdrawal, if more it will have to be transferred to an annuity or preserved.
- If a member is involved in divorce proceedings of which the Fund is aware, the Fund may refuse an application for a withdrawal from the emergency savings component until the divorce proceedings have been finalised, as a divorce payment to the non-member spouse is payable from all three the components.
- All Section 37D deductions, as per the Pension Funds Act, will be deducted from all three components.
- Benefit statements will refer to "pots" and not components.

Withdrawal process from the Emergency Savings Component:

Withdrawals from the emergency savings component will only be allowed online to mitigate possible fraudulent claims. Ensure you are registered on the Sanlam Portfolio App. Withdrawals can be done by members themselves or with the assistance of their employer.

If the employer assists the member with the withdrawal process, the member will receive a SMS that a withdrawal from the emergency savings component is being done on their behalf. If the member is completing the withdrawal online the member will receive an OTP via SMS and will have to insert the OTP to continue with the claim process. Sanlam will send the member a SMS that the withdrawal from the emergency savings component is in process and keep the member updated via SMS until payment is made.

Once the member starts the process on the Sanlam Portfolio App to withdraw from their emergency savings component, the member's banking details and tax number will appear on the screen. The banking details cannot be edited or changed by the member, but the tax number can be edited or changed by the member.

When members apply for the withdrawal from their emergency savings component they will be requested to enter their taxable income on the system, to enable SARS to generate a tax directive. This is the reason why only registered taxpayers can apply for the withdrawal from their emergency savings component.

Members will be able to see the available emergency withdrawal amount on the application screen.

What is payable at exit (withdrawal or retirement) and tax applicable in the three components:

Withdrawal (resignation):

Vested component	Emergency Savings component	Retirement component
Full benefit is available to be taken in cash or invested. The benefit can remain in the Fund as a paid-up member.	If no withdrawal already made in the tax year, the full benefit is available to be taken in cash or invested or partially taken in cash and partially invested. The benefit can remain in the Fund as a paid-up member. If a withdrawal already done in the tax year and the amount available at exit exceeds R2 000 it has to be transferred to the new employer, preservation fund or annuity, if less than R2 000 it may be taken in cash.	No withdrawal is allowed it has to be transferred to the new employer, preservation fund or annuity. The benefit can remain in the Fund as a paid-up member.
Withdrawal tax tables are applicable to the portion taken in cash.	Marginal tax rate of member is applicable.	Tax-free transfer to new employer, preservation fund or annuity.

Retirement:

Vested component	Savings component	Retirement component
Full benefit is available to be taken in cash or invested.	Full benefit is available to be taken in cash or invested.	Purchase an annuity or transfer full benefit to a preservation fund. All three components must be invested in the preservation fund if preservation is chosen.

		If the amount is less than the *de minimis* of R165 000 it may be taken in cash.
Retirement tax tables are applicable on the portion taken in cash, R550 000 tax-free over all three components.	Retirement tax tables are applicable on the portion taken in cash, R550 000 tax-free over all three components.	Tax-free transfer to preservation fund or annuity. If less than the *de minimis* of R165 000 the retirement tax tables are applicable on the portion taken in cash, R550 000 tax-free over all three components.

During the build-up to 1 September 2024, the Fund's administrator, Sanlam, will communicate regularly with members via SMS and WhatsApp to share two-component information and to provide guidance on how to submit an emergency savings withdrawal. Kindly note that this communication can be trusted, which will include links to videos and infographic material.

Should you require any additional information please feel free to contact the Fund.

Kind regards

CSeierlein

Christine Seierlein
CHIEF EXECUTIVE OFFICER