

ENGINEERING INDUSTRIES PENSION FUND

TAKING CASH OUT OF YOUR FUND BENEFIT AFTER 1 SEPTEMBER 2024




Government is in the final stages of changing the law to allow members who are in financial trouble to take part of their Fund Credit in cash while they are still employed. This is a very big change from the current system where members are only allowed to take their benefit in cash on resignation and part of their benefit in cash on retirement.

We have explained the changes in this notice but it is important to note that:

- **The proposed implementation date of the new system is 1 September 2024.**
- **You will not be able to access your full current Fund Credit:** The initial amount you will be allowed to access is limited to 10% of your Fund Credit as at 31 August 2024, subject to a maximum Rand amount of R30 000 – this amount is called your **seeding capital**. As an example, if you have a Fund Credit of R150 000 on 31 August 2024, your seeding capital will be R15 000 (10%) and this is the amount you will be able to access in cash on 1 September 2024.
- **One-third of your member and employer retirement funding contributions after 1 September 2024 may be withdrawn.**
- **You are not allowed to withdraw amounts less than R2 000.** Restrictions also apply if you are getting divorced or have a housing loan backed by the assets of the Fund.
- **Tax and fees will be deducted from any amount you withdraw:** Any amount you withdraw will be taxed as income and an administration fee to process the withdrawal will be deducted from the payment.
- **You can only withdraw money once in each tax year.**
- **Any amount you withdraw in cash will reduce your benefit on future resignation or retirement.**
- **Payments may not happen immediately if a request is made in September 2024:** Before making a payment, the rules will have to be approved, SARS will have to confirm the amount of tax to pay and the administrator will have to process the payment. Because we expect a lot of requests in September, there may be delays in payment.

THE TWO POT SYSTEM

Although you will see it called the “two pot” system, the new system will split your Fund Credit into 3 separate pots:

Vested Pot	Savings Pot	Retirement Pot
		
<i>Benefit accrued up to 31 August 2024, less seeding capital, plus investment returns</i>	<i>Seeding capital plus 1/3rd of retirement contributions after 1 September 2024, plus investment returns</i>	<i>2/3^{ds} of retirement contributions after 1 September 2024, plus investment returns</i>

Retirement contributions, for the purposes of the Savings Pot and the Retirement Pot, are defined as:

Member contributions + Employer contributions – Risk benefit premiums – Administration expenses

Members are permitted to transfer their Vested Pot and their Savings Pot into their Retirement Pot at any time. They cannot transfer any amount out of their Retirement Pot.

When a benefit is paid to a member, each Pot needs to be considered separately in terms of the conditions that apply to that pot and the taxation basis if the pot can be paid out. In this notice:

- A **Green pot** means the benefit can be taken in cash;
- A **Blue pot** means the benefit cannot be taken in cash at that time and must be preserved until a later date, i.e. to resignation or retirement, as appropriate; and
- A **Red pot** means the benefit must be used to buy a pension at retirement. If, however, the combined amount that must be used to buy a pension in the Vested Pot and the Retirement Pot is less than R165 000, then the full amounts in those Pots may be taken in cash.



CASH PAYMENT WHILST IN EMPLOYMENT: From 1 September 2024 you may, subject to various conditions, request payment of part of, or all of, the balance in your Savings Pot without leaving employment.

Vested Pot	Savings Pot	Retirement Pot
		
<i>Cannot be accessed</i>	<i>May be taken in cash</i>	<i>Cannot be accessed</i>

For the Savings Pot, a **minimum of R2 000** may be taken in cash at a time, only one such payment may be made in any tax year (e.g. if you request and receive a payment on, say, 15 April 2025, you will not be able to receive another payment until at least 1 March 2026), the amount is **taxed as income** (see below) and a **fee** will be charged by the administrator for making the payment.




Remember, any amount taken in cash whilst in employment reduces your benefit in the Fund. If you take your full Savings Pot in cash before you exit employment, you will have less in cash available when you leave employment (when you may need this cash the most).

WITHDRAWAL FROM EMPLOYMENT (RESIGNATION / RETRENCHMENT / DISMISSAL)

Vested Pot	Savings Pot	Retirement Pot
		
<i>May be taken in cash</i>	<i>May be taken in cash</i>	<i>Cannot be accessed</i>

Your Retirement Pot must be preserved to retirement, either by leaving it paid-up in the Fund or by transferring it to another retirement fund or preservation fund.

RETIREMENT FROM EMPLOYMENT (INCLUDING ILL-HEALTH / DISABILITY RETIREMENT)

Vested Pot	Savings Pot	Retirement Pot
		
<i>Maximum 1/3rd in cash Minimum 2/3^{ds} must be used to buy a pension</i>	<i>May be taken in cash</i>	<i>Must be used to buy a pension</i>

DEATH: There are no changes to the way that the benefit is paid to your beneficiaries on your death.

TRANSFER TO OTHER FUNDS: Where any amount is transferred to another fund, the amount in each Pot must be transferred to a matching Pot in the new fund.

TAX

The tax treatment of the various payments will differ depending on how they are taken, as follows:

- Any **cash withdrawal whilst in employment** will be taxed as income.
- Any **cash payment on exit from the Fund** will be taxed as income if taken from the Savings Pot or based on the existing withdrawal tax scale if taken from the Vested Pot.
- Any **cash payment on retirement** will be taxed on the existing retirement tax scale.
- The **pension purchased on retirement** using any part of your benefit will be taxed as income.
- No tax is paid on **any amount transferred or preserved**.

This is a summary of the main provisions of the Two Pot system and please note that all issues, and especially the taxation of benefits, are subject to the final legislation when it is signed into law.

If you have any questions regarding the above, please contact the MIBFA call centre on 086 0102 544