Sanlam

Two-Pot Savings Withdrawal Approach

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Two-Pot System

Sanlam is supportive of the long-term aims of the two-pot system for members' retirement savings. We understand that for many South Africans, retirement savings are often the only savings they have. The hope is that with members knowing that they can access a portion of their retirement savings in future (even if still working), it will alter member behaviour and decision making. Members will not feel they have to withdraw their savings when changing jobs "just in case" as is currently the case. The legislation also addresses the current low preservation rates which is one of the main reasons for members retiring with inadequate benefits. With easily accessible and understandable information, as well as counselling from their retirement funds, members can become more empowered to make better choices.

Smooth Bonus Two-Pot Savings Withdrawals

It is Sanlam's view that two-pot withdrawals from the savings pot should be treated as a partial termination since it is a voluntary exit, which means that the amount paid out will be at the lower of book and market value. Unlike other benefit payments, such as death, disability, retrenchment, resignation, retirement or dismissal, the timing of the disinvestment is at the member's discretion. We have a commitment to protect the assets of all our members, the two-pot savings withdrawals will expose the portfolio to possible anti-selection which may result in lower future bonuses for the remaining members with assets in the portfolio.

Withdrawals from the savings component are subject to specific rules as stipulated in the regulation. This includes limitations to withdrawals and the application of individual tax rates to withdrawals.

Smooth Bonus Benefit Payments vs. Terminations

- ### Benefit Payments

  Our policies define a Benefit Payment as "a benefit payable to a member on death, disability, retrenchment, retirement, resignation, or dismissal in terms of the rules of the Fund". These benefits payment events are normally when a member leaves a retirement fund, and Sanlam will pay the book value. There are no limits on the amount that can be claimed for a particular benefit payment.

- ### Termination, Switches & Two-pot Savings Withdrawals

  On termination (and switches between portfolios), we pay the lower of book and market value, also referred to as a market value adjustment. **The same basis will be applicable for two-pot savings withdrawals.**

  If market value adjustments are not applied on these voluntary exits, members who remain in the portfolio will likely receive lower bonuses in the future. As such, those members who terminate, switch, or make two-pot savings withdrawals from the portfolio may be subject to market value adjustments to ensure they receive their fair share of the underlying market value. The result is that members remaining in the portfolio will not be impacted by those exiting the portfolio.

Market value adjustments are triggered when the portfolio is under-funded. Should the portfolio be under-funded when the transaction is requested the member will receive a warning, like the one below, that a market value adjustment will be applied.

I understand that if my Emergency Savings Pot is invested in a smooth bonus portfolio (such as Stable Bonus Portfolio or Monthly Bonus Fund), the disinvestment from the emergency savings pot will be treated as a termination. This means that the amount paid will be at the lower of market and book value. In a market downturn you may receive less than the amount requested from your Emergency Savings Pot.

It is important to note that a market value adjustment is not a charge and does not benefit Sanlam's shareholders in any way.

Liquidity

Sanlam anticipates high levels of two-pot savings outflows in the first few months (September to December 2024) and has ensured there is sufficient liquidity.

We have carefully modelled the expected outflows due to the introduction of the two-pot system and believe that we will see a significant increase in withdrawals during the first few months when members have access to the savings. A similar scenario was seen in countries like Chile, Zambia and Malaysia when their members were allowed access to their retirement savings.

However, we believe that most of our portfolios will have sufficient liquidity to deal with the projected level of withdrawals without increasing the allocation to liquid assets significantly. Most retirement funds already experience a large level of outflows when members change jobs, and already hold sufficient liquid assets.

Recap on Terminology

- **Relationship between Book Value, Market Value and Funding Level**

The members' book value grows steadily with the bonuses through time, whereas the market value, value of the underlying asset changes in line with market performance.

There are times were the market value decreases or increases drastically, deviating from the book value. This is represented by the portfolios funding level, which is the ratio of the market value to book value.

$$\textbf{Funding Level} = \frac{\textbf{Market Value}}{\textbf{Book Value}}$$

When the market value is higher than the book value, the portfolio is said to be fully funded. In this case, ALL exits out of the portfolio will be made at book value.

When the market value is lower than the book value, the portfolio is said to be under-funded. ALL benefits payments are paid at book value. Terminations, switches and two-pot savings withdrawals are paid at market value.

More information on market value adjustments can be found here.
OR
Watch a short video explaining Market Value Adjustments here.