Box 2 Unpacking the impact of the two-pot retirement system

The two-pot retirement system came into effect on 1 September 2024 and aims to balance financial flexibility during periods of financial distress by allowing active retirement fund members short-term access to their retirement savings, while also ensuring long-term retirement security. Previously, members could only get access to their retirement funds upon exiting the fund. This reform grants retirement fund members partial access to their retirement funds, with one third of the contributions allocated monthly to the savings pot to allow for emergency withdrawals, while the remaining two thirds is allocated to the long-term retirement component, which must be preserved until retirement. Fund members can withdraw a minimum of R2 000 from the savings pot in a tax year, which is taxed at the member's marginal tax rate, and there is no maximum withdrawal limit on the savings component. This reform helps to alleviate short-term financial distress of retirement fund members, while securing long-term retirement benefits as opposed to the previous regime where fund members could cash out 100% of their retirement funds when changing jobs.

At inception, a once-off seed capital, equivalent to 10% of all retirement fund members' total retirement savings up to 31 August 2024, limited to a maximum of R30 000, was transferred into their savings pot and became available for immediate withdrawal. The remaining funds were kept in the vested component, which continued to be governed by the previous retirement rules and may be cashed out upon exiting the fund before retirement.

Following the implementation of the new system, both the private[1] and official retirement funds[2] recorded a sharp increase in pension withdrawals.[3] Total withdrawals increased by 19.4% from the second quarter of 2024 to the third quarter when the legislation was introduced, and by a further 12.5% in the fourth quarter of the year.

	Pension fund withdrawals (R millions)			Contribution to total withdrawals (Per cent)	
	Private	Official	Total	Private	Official
Quarter 1 2023	26 209	13 206	39 415	66	34
Quarter 2 2023	25 833	11 638	37 471	69	31
Quarter 3 2023	25 740	11 462	37 202	69	31
Quarter 4 2023	25 933	10 477	36 410	71	29
Quarter 1 2024	26 448	5 639	32 087	82	18
Quarter 2 2024	26 773	12 651	39 424	68	32
Quarter 3 2024*	33 615	13 462	47 077	71	29
Quarter 4 2024	31 251	21 720	52 971	59	41

* Is the quarter in which the two-pot system was implemented.

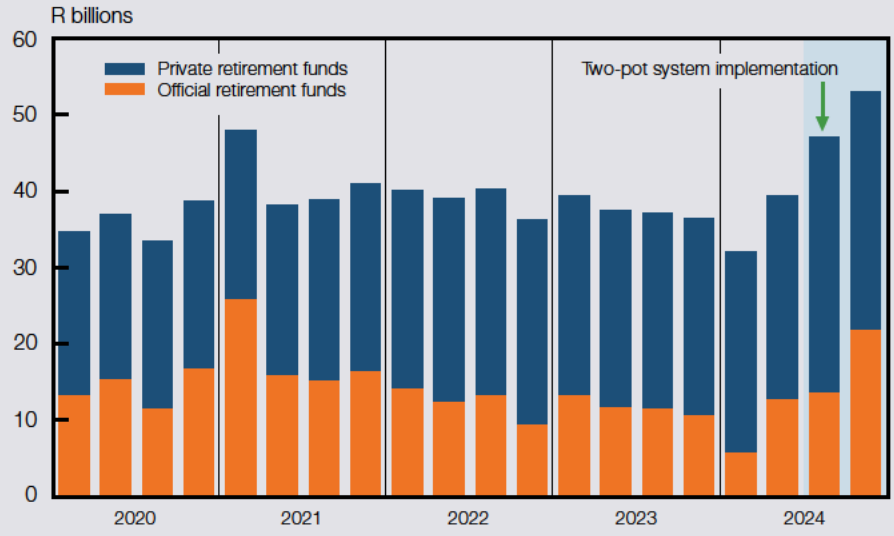
Source: SARB

1 These are funds registered, regulated and supervised by the Financial Sector Conduct Authority (FSCA) in terms of the Pension Funds Act 24 of 1956 (Pension Funds Act).

2 These are funds not subjected to regulation and supervision in terms of the Pension Funds Act, but established by own statutes, such as the Government Employees Pension Fund, the Transnet Retirement Fund and the Post Office Retirement Fund.

3 These withdrawals include retrenchment benefits and divorce settlements.

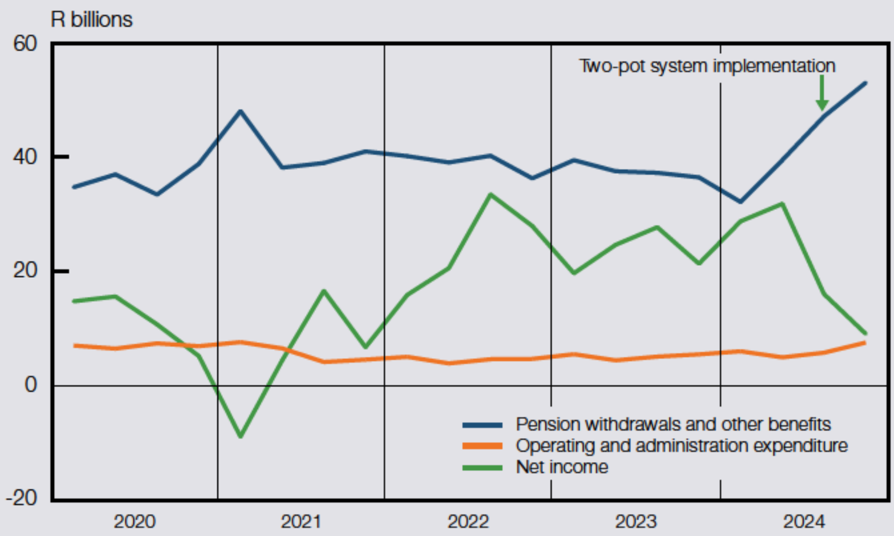
Pension withdrawals and other benefit payments



Source: SARB

The implementation of the two-pot retirement system has contributed to an increase in pension withdrawals, and raised administrative costs for retirement funds. This has adversely affected the net income of retirement funds, which declined from R31.8 billion in the second quarter to R16.0 billion in the third quarter, and even lower to only R9.0 billion in the fourth quarter. Ongoing high pension withdrawal claims and administration costs, related to managing two separate retirement pots and ensuring regulatory compliance, could continue to impact the net income of retirement funds in the near term.

Expenditure, withdrawals and net income of retirement funds



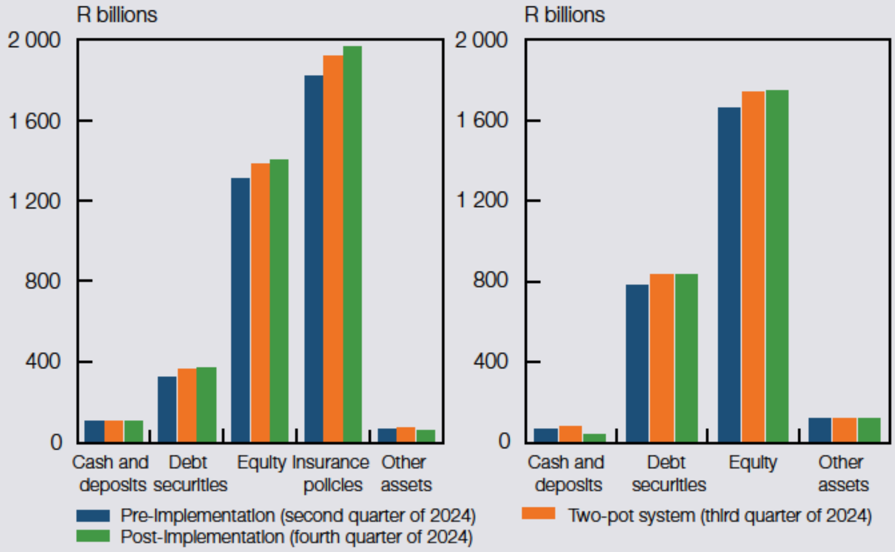
Source: SARB

Pension withdrawals reduce retirement funds' immediate liability to members since the withdrawn benefit no longer form part of the funds' inherent obligation. However, the balance sheet of retirement funds continued to expand in the third and fourth quarters of 2024, driven by movements in financial markets. The balance sheet of retirement funds increased by 5.9% during the third quarter of 2024 as the FTSE/JSE All-Share and All Bond indices increased by 8.6% and 10.6% respectively, and by a further 0.1% in the fourth quarter of 2024.

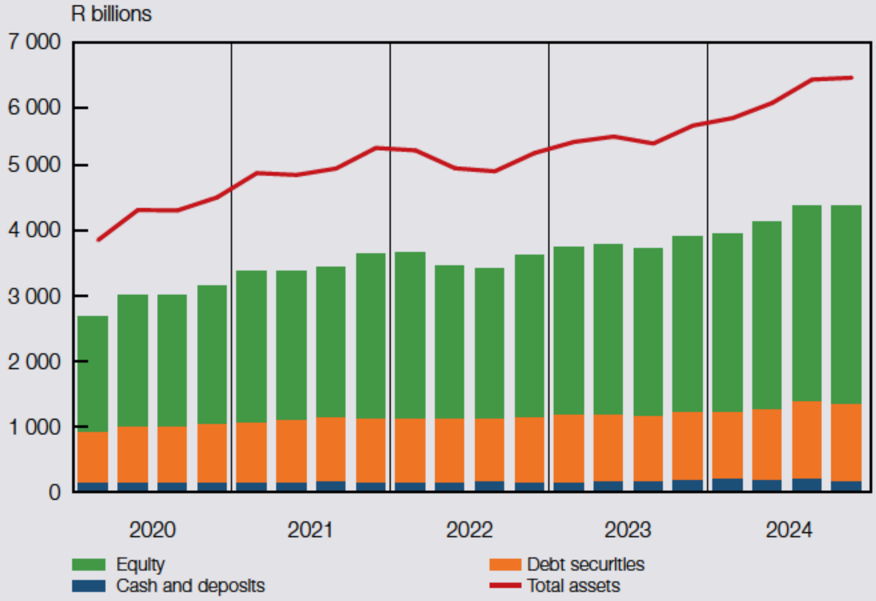
Changes in cash and deposits of the retirement funds during the three periods[4] analysed were related to different factors. In the third quarter of 2024, cash and deposits increased in preparation to pay for the expected large pension withdrawals. This increase was subsequently reversed in the fourth quarter of 2024 after the actual payments were made, especially for the official retirement funds.

Main asset classes of retirement funds

Private retirement funds **Official retirement funds**



Selected assets of retirement funds

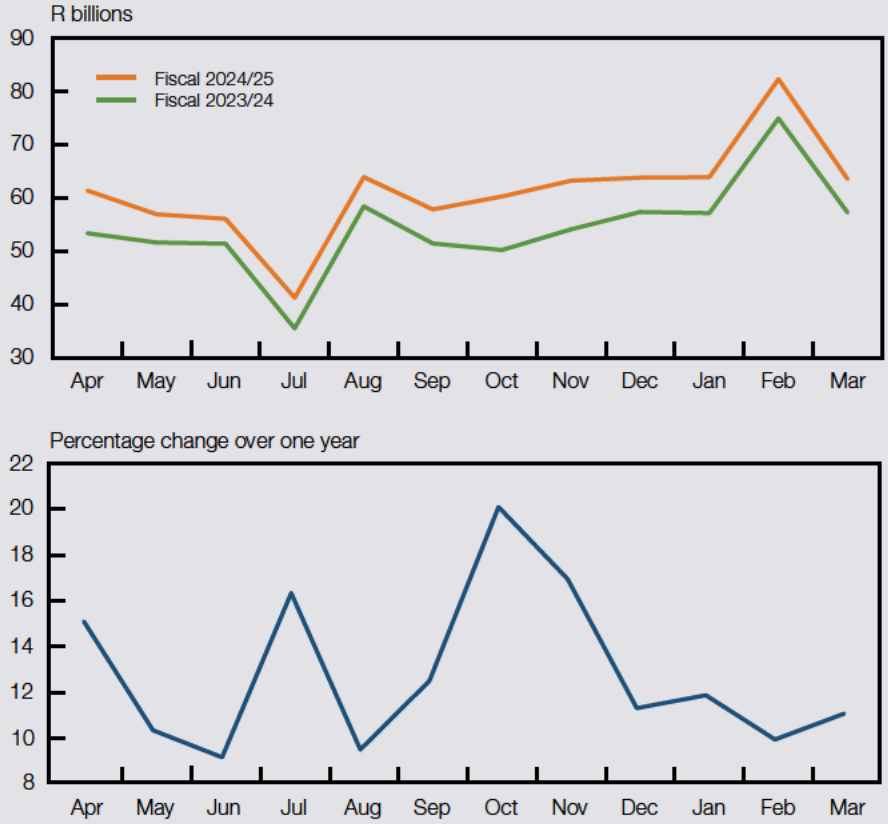


Source: SARB

The introduction of the two-pot retirement system has had significant fiscal and macroeconomic implications, especially in terms of pay-as-you-earn (PAYE) tax collections and social benefits received by households. By the end of October 2024, tax revenue of R7.6 billion had already been collected from retirement fund withdrawals associated with the two-pot retirement system, higher than the originally projected R5.0 billion for the remaining seven months of fiscal 2024/25. The strong uptake continued in the subsequent months, with the cumulative tax revenue from retirement fund withdrawals reaching R11.3 billion by the end of January 2025 and then surging to R12.9 billion in March. The additional R12.9 billion tax revenue raised through the introduction of the two-pot retirement system in fiscal 2024/25 boosted personal income tax (PIT) collections from R720 billion to R733 billion, and resulted in year-on-year growth in PIT of 12.6% in fiscal 2024/25 compared with 10.6% when excluding tax revenue from two-pot related withdrawals.

4 The three periods considered were pre-implementation (the second quarter of 2024), two-pot system implementation (the third quarter of 2024) and post-implementation (the fourth quarter of 2024).

Personal income tax collections



Sources: National Treasury and SARS

Although the year-on-year rates of change in the monthly PIT collections are usually quite volatile, notably higher growth rates were observed during some months in fiscal 2024/25. The highest year-on-year increases occurred in October 2024 (20.1%) and November 2024 (16.9%), reflecting increased collections related to the sizeable withdrawals under the two-pot retirement system. In addition, PIT also benefitted from above-inflation growth in collections in the finance and community services sectors, while the South African Revenue Service (SARS) indicated that there has been a noticeable improvement in PAYE tax compliance over time.

Personal income tax collections

R millions	Actual		Fiscal 2024/25 projections	
	Fiscal 2023/24	Fiscal 2024/25	*2024 Budget Review*	*2024 MTBPS**
Personal income tax collection	651 384	733 177	741 065	731 587

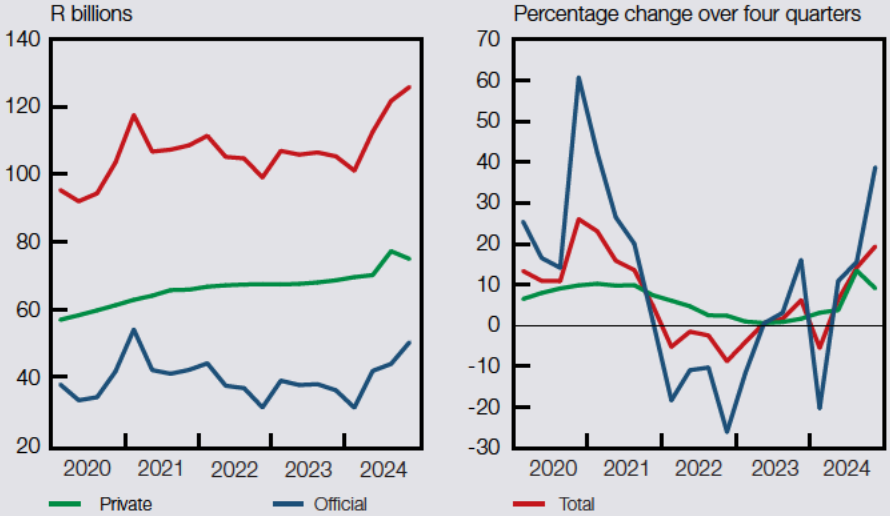
* *Medium Term Budget Policy Statement*

Source: SARS

The fiscal implications associated with the implementation of the two-pot retirement system included the enhancement of SARS's ability to recover outstanding tax debt. Of the PAYE collected through tax directives, R1.0 billion was related to stop orders (IT88L), which are automatic deductions that settle outstanding tax debts before any two-pot related withdrawals are paid out to individuals.

In the *System of National Accounts 2008 (2008 SNA)*, the pension withdrawals[5] are recorded in the secondary distribution of income account as part of the social benefits received by households. Pension withdrawals are also included as part of the adjustment for the change in pension entitlements[6] in the 'use of disposable income account', which serves as a counterbalance in the sequence of accounts.

Social benefits paid by retirement funds



Source: SARB

Social benefits paid by pension funds increased year on year by 14.2% and 19.4% in the third and fourth quarters of 2024 respectively. This partly reflected the increase in pension withdrawals of 26.5% and 45.5% respectively over the same period, mainly stemming from the implementation of the two-pot retirement system.

While households benefitted from the proceeds of withdrawals under the two-pot retirement system, the year-on-year increases in household consumption expenditure and disposable income were somewhat muted at 5.4% and 4.6% respectively in the third and fourth quarters of 2024, as the proceeds were primarily allocated across three categories, namely consumption expenditure, the repayment of debt, and the acquisition of assets by households. In addition, the total amount withdrawn from retirement funds thus far is negligible relative to most national accounting aggregates, such as the nominal final consumption expenditure by households of R1.3 trillion recorded in the fourth quarter of 2024.

5 Including retrenchment benefits, divorce settlements and, with effect from 1 September 2024, two-pot retirement funds withdrawals.

6 According to the *2008 SNA*, the adjustment is calculated as the total value of the actual social contributions payable into pension schemes *plus* the total value of contribution supplements payable out of the property income attributable to pension fund beneficiaries *minus* the value of the associated service charges *minus* the total value of the pensions paid out as social benefits by pension schemes.