

MEDIA RELEASE

REVOLUTION IN RETIREMENT: HOW THE 'TWO-POT' SYSTEM BRIGHTENS THE FUTURE FOR SOUTH AFRICA'S YOUNG WORKERS

26 June 2024: By addressing both the urgent need for financial liquidity and the essential goal of preserving retirement savings, the Two-Pot system is poised to guarantee a brighter future for employed South African youth. According to Old Mutual's analysis, the new system, launching on 1 September 2024, could enable workers starting at age 25 to amass retirement savings 2 to 3 times greater than those under the old system.

“The ingenuity of the Two-Pot system lies in its ability to acknowledge the need for immediate financial access, reflecting our socio-economic reality, while still safeguarding long-term retirement goals,” says Keri-lee Edmond, the Analytics and Insights Manager from Old Mutual Corporate Consultants leading the quantitative investigation. “This marks a momentous shift in conventional thinking, and one which we believe will have a significantly positive effect on retirement outcomes in the future.”

Her research indicates that the Two-Pot system could enable young South Africans entering the workforce to save up to 9.5 times their annual salary by retirement, even if they use the entire savings component for emergencies. If no emergency withdrawals are made, savings could reach around 14.5 times the annual salary, ensuring greater financial security in retirement.

Currently, typical members of provident or pension funds save only 2.7 times their annual salary, which undermines post-employment financial stability. Experts recommend saving 10-15 times one's annual salary to replace 70%-75% of working income in retirement, highlighting a significant shortfall in current savings practices.

“The Two-Pot system promises significant progress towards financial security for all employees in occupational funds. However, employers play a key role in promoting financial education and creating innovative, less expensive forms of liquidity in a crisis. It is important to emphasise that withdrawals from the savings pot should be avoided,” says Edmond.

The problem the Two-Pot system will address.

The Old Mutual On Track research 2023, which analysed half a million employees in umbrella funds, revealed that members of employer retirement funds have been withdrawing 100% of their retirement assets in cash when changing jobs.

"This action represents the most significant destruction of value and has a negative multiplier effect," says Edmond. "The Two-Pot system aims to address this by preserving assets while allowing access to

savings in difficult times. Compulsory preservation ensures more assets remain invested longer, benefiting from compound interest and resulting in higher retirement savings.

“The legislation requires two-thirds of retirement savings to purchase an annuity, providing regular income in retirement and financial security for leisurely activities,” says Edmond. “Additionally, employees can withdraw from their savings component annually without leaving employment, addressing the current economic reality for many South Africans.

“New employees should be encouraged to engage in financial planning and set aside additional emergency savings as they join the workforce, providing a cost-effective alternative to emergency withdrawals and helping to avoid debt.”

Good news for older workers too

“The simulations also show that for older members with at least 11 years of service until retirement, the new system is expected to provide outcomes at least equal to, if not better than, the current system,” says Edmond.

“This new policy is a robust solution for today’s economic challenges and will have a positive impact on employees of all ages. The longer individuals spend in the Two-Pot system, the more positive that effect will be.”

The retirement landscape is evolving, and South Africa is taking action to improve outcomes for all individuals, with employers playing a crucial role.

"The Two-Pot system is anticipated to revolutionise retirement planning in our country, offering substantial improvements in savings, especially for younger workers. By effectively balancing immediate financial needs with long-term retirement goals, it promises a brighter and more secure future for all, and we look forward to witnessing the positive impact this will have on our society."

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