INTUITION
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The Two Pot Tailwind

When the press covered the Two Pot Retirement system reforms after initial announcements, there was a resounding groan that this was the ANC buying votes from the workers. We pointed out at the time that this was not a new idea - rather one that had been well researched and that had used Chile as the model for implementation, where it had been very successful. We saw it as a positive step in a country where employees randomly resigned to get access to their retirement funds. Since the initial implementation and flood of withdrawals, Discovery has published a report based on some modelling and insight into its own client base that suggests the savings industry has just started to receive a substantial tailwind.

Robin Gibson

If you own a Retirement Annuity or Pension or Provident Fund, your statements have recently become far more complicated, with Vested Components, Retirement Components and Savings components. It's all part of the newly implemented Two-Pot retirement system that forces employees to preserve at least two thirds of their retirement pool until final retirement. Most people know, in theory, that they should leave their retirement savings for retirement and benefit from long-term compounding. Practice is a different animal. Pension funds have been raided for decades, and this has become particularly destructive in a generation of workers who no longer had 30-year careers with the same company.

Discovery recently presented at the Institute of Retirement Funds Africa's conference and made some interesting observations:

- First time withdrawals averaged R13,000 (out of a maximum of R30,000, but subject to the member having a balance of R30,000 in the saving pot).
- 61% of eligible members chose to leave their savings component untouched.
- Repeat withdrawals have dropped to an average of R4,600 (before tax) in the second cycle, but this is deeply impacted by the level of contributions to the savings component (lower end members would not have saved another R30,000 into their savings pots).

The retirement industry uses a term Net Replacement Ratio to model the expected income replacement by retirement savings. In other words, if an individual is earning R50,000 per month, but requires R35,000 at retirement to maintain the same lifestyle, then his net replacement ratio is 70% (R35,000 divided by R50,000 expressed as a percentage). It is estimated by the industry at large that 70% to 75% is a good ratio to target in retirement planning.

Discovery presented some fascinating modelling on the impact of the 2-pot system on replacement ratios into the future. The table below is a reproduction of what they presented. It models two employees aged 25 and 40 at

SPEED READ

- **The Two-Pot system has caused retirement savings to be split into Vested, Retirement, and Savings pots - at least two-thirds must always be preserved during any employment change until final retirement.**
- **A recent Discovery presentation indicates encouraging behaviour with 61% leaving their savings pot untouched. First withdrawals averaged R13,000, with repeat withdrawals falling sharply.**
- **Early modelling shows Net Replacement Ratios (percentage of final salary replaced by retirement savings on retirement) rise significantly under the new system, especially for job-changers who previously withdrew all their funds.**
- **The long-term impact for the investment industry could be much greater. Industry assets could grow 3 - 4x faster than before - potentially to R150 to R200 trillion by 2065 - fuelling higher savings rates, deeper capital markets, cheaper funding, and stronger GDP growth.**

the start, and assumes they change jobs every 5 years. It also models the old system versus the new with various behaviours. The increase in the replacement ratios is substantial especially for those who would have made poor decisions historically. This can only bode well for the wider population into the future. Discovery did point out that they had used investment returns based on 2015-2025 in their modelling, so a lot would depend on a repeat of this scenario (especially the foreign component in pension funds).

MODELLING NET REPLACEMENT RATIOS

		Net Replacement Ratio		
Age	Behaviour	Pre-Two Pots	Post-Two Pots	Difference
25	Never Withdraw, preserves at every resignation	80%	80%	-
	100% Cash Withdrawal after every resignation	4%	41%	10x
	100% Cash withdrawal after resignation, 100% preservation from age 45	21%	48%	2.3x
40	Never Withdraw, preserves at every resignation	50%	50%	-
	100% Cash Withdrawal after every resignation	4%	19%	4.8x
	100% Cash withdrawal after resignation, 100% preservation from age 45	21%	26%	1.24x

This table illustrates the change in Net Replacement Ratio for two different aged employees retiring at 65, based on various behaviour patterns on their retirement savings during job changes under both the old regime and the new two-pot system.

We think there was even more interesting news in this presentation. Discovery suggested that based on their assumptions, the historic behaviour of employees and without the two-pot system, retirement industry assets would likely have grown from R4 trillion today to around R50 trillion in 40 years (2065). However, their modelling suggested that even if every member took all they can under the two-pot system, industry assets would likely balloon to R150 trillion over the same period, 3 times higher. Furthermore, if the behaviour of the last 12 months is extrapolated (i.e. more conservative accessing of funds) then the number could even exceed R200 trillion. That is a retirement industry 3 - 4 times greater than it would have been without the two-pot reforms.

Discovery's presentation was only about retirement outcomes, but we think there is something far more exciting to consider. If the industry grows 3 - 4 times over the next 40 years that's potentially a growth of 5% better than inflation (versus just 2% before). That is going to change the face of investing in South Africa substantially. Potentially the following impacts could be experienced:

- South Africa has a very low savings rate; this will drive different behaviour over the long term and possibly improve the nation's savings rate.
- That will expand both Capital and Equity markets. More money being channelled into local investments will make the cost of capital cheaper which could boost company returns and potentially make South Africa more attractive. Capital markets could provide opportunities for public-private partnerships for infrastructure investment and Fixed Capital investment which will support better GDP growth.
- More money seeking investment at a lower cost may stimulate entrepreneurial behaviour to solve both problems and provide additional investment opportunities.
- More money available for investment will likely boost share and bond valuations, a boon for investors saving towards retirement.
- The Rand has been much more resilient than people believe because Government can fund budget shortfalls internally rather than raising money in hard currency that creates catastrophic events because of the odd misstep (think Turkey and Argentina). Higher local savings will provide a further cushion to capital markets and the Rand.

Companies dependent on the local savings industry have experienced persistent outflows over the past ten years, due to savers raiding their investments to meet near term needs. That trend is clearly evident when analysing the performance of asset managers such as Coronation and Ninety One, but also the large life assurers. But already we are seeing the first signs that withdrawals are moderating, with a consequent acceleration in retained assets, and therefore higher earnings. The two-pot reform is not the panacea to all the industry's problems, but it is an important first step to improving the savings culture. If growth accelerates and employment rises, that will add further impetus to the net savings rate. It has been a tough period for investors in both Coronation and Ninety One, but the future looks brighter than it has done for years – and investors are starting to take notice. Coupled with their attractive dividend policies and yields, we are happy to remain invested.

Another year has come and gone, a year that has thrown up its fair share of surprises. Please join us for our year end seminar which will see us dusting off the crystal ball and looking into 2026 for clues as to what the new year might hold."

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Topic: Outlook for 2026

Natal Midlands

Date:	Thurs, 4th of December, 2025
Venue:	Christ Church Howick, 23 Mare Street, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg

Date:	Thurs, 27th of November, 2025
Venue:	Rosebank Union Church, Cnr Winne Mandela Drive and St Andrews Road, Hurlingham
Time:	7am for 7.30am

Cape Town

Date:	Tues, 25th of November, 2025
Venue:	SSISA Conference Centre, Boundary Road, Newlands, Morne du Plessis Boardroom, 4th floor
Time:	7.30am
Venue:	ABRU Motor Studio, Lourensford Wine Estate, Somerset West
Time:	5.30pm for 6pm