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The Two-Pot retirement system in South Africa: Opportunities, risks, and implications for public revenue

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Abstract

This paper looked into the potential of South Africa's newly introduced Two-Pot System for retirement savings as a tool for raising public revenue. This complements its main goal of boosting retirement security. While the system aims to alleviate short-term financial pressures on individuals, concerns have emerged about its broader economic implications, particularly regarding public revenue. There are a few prior studies, but none have concentrated on the opportunities, risks, and implications for public revenue. Thus, this paper uniquely contributes to academic research. To gather information for the paper, a systematic literature review was used, focusing only on secondary data. This method aimed to examine whether increased access to retirement savings might lead to higher taxable withdrawals, thereby contributing to government revenue. This also included exploring the opportunities, risks, and implications associated with the system. The paper found that the Two-Pot Retirement System gives opportunities, like the potential increase in tax revenue and household savings. On the other hand, it poses economic risks, such as a decrease in retirement savings, heightened dependence on social grants, and financial mismanagement due to low financial literacy, which could exacerbate poverty and inequality. Countries, including Chile and Singapore, have similarly indicated the risks associated with reduced retirement savings due to permissive withdrawal policies. The paper indicated that this system in the long run poses a risk because it can delay the progress toward achieving national and international goals, including the National Development Plan (NDP) and the Sustainable Development Goal (SDG). The paper recommends regulating and monitoring the system vigilantly to avoid impulsive withdrawals and maintain fiscal stability.

Keywords: *two pots retirement system, public revenue, retirement, savings, South Africa*

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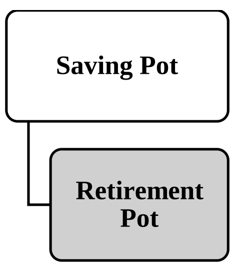
1. Introduction

In the pursuit of the United Nations Sustainable Development Goals (SDGs), particularly SDG 1 (No Poverty), SDG 8 (Decent Work and Economic Growth), and SDG 10 (Reduced Inequalities), South Africa continues to implement reforms. These reforms aimed at reducing poverty, promoting inclusive economic participation, and ensuring financial resilience among its citizens. These goals are further reinforced by the country’s National Development Plan (NDP) Vision for 2030. This plan envisions a society where all South Africans enjoy sustainable livelihoods, decent employment, and social protection through well-functioning institutions and economic policy interventions (Chigova, 2021). In line with these strategic priorities, the Two-Pot Retirement System, introduced in September 2024, represents a major advancement in retirement savings reform. This system separates contributions into two components, as shown by figure 1.

Figure 1

Components of the Two-Pot System



Source: Authors’ compilation

The savings pot component, as explained in the work of Burger (2023), allows limited annual withdrawals before retirement, providing financial flexibility for emergencies or other immediate needs. On the other hand, the retirement pot, holding the remaining two-thirds, is reserved exclusively for retirement, ensuring funds are preserved for future income (National Treasury, 2024). Hitge (2024) states that the Two-Pot Retirement System seeks to balance short-term liquidity needs with long-term preservation of retirement funds. A notable feature of the system is the "seed capital" withdrawal benefit, which enables members to withdraw up to 10% of their retirement savings (capped at R30,000) as of the 31st of August 2024, subject to taxation. This withdrawal can be made annually and is intended to alleviate immediate financial pressures while discouraging premature depletion of retirement savings (Leibowitz, 2024).

While the system holds promises in balancing short-term financial needs and long-term savings goals, challenges such as tax implications, fund rule adjustments, and administrative readiness must be addressed to maximize its effectiveness. The Two-Pot Retirement System represents a paradigm shift that prioritizes both financial accessibility and preservation, which fosters retirement readiness within a more adaptable framework. South Africa's persistent difficulty in generating adequate public revenue, exacerbated by high unemployment rates and the financial pressures on households (Lewis & Alton, 2015; Mokofe, 2024), highlights the importance of this reform. Thus, by allowing limited withdrawals, the Two-Pot Retirement System increases disposable income, which enhances consumption and tax revenue. Nonetheless, this may present long-term challenges for the South African government. There are a few prior studies, but none have concentrated on the opportunities, risks, and implications for public revenue. Hence, there is a need for this paper, which is shown by a gap in knowledge that can add to the academic research and also contribute to public administration in practice. The paper has the following objectives:

a. To explore the opportunities, risks, and broader economic implications associated with the implementation of the Two-Pot Retirement System in South Africa.
b. To provide policy recommendations for the use of the Two-Pot Retirement System in South Africa.

2. Literature Review

2.1 The Two-Pot System

In recent years, several governments across the world have been exploring alternative approaches to retirement savings to balance the need for financial security in old age with the flexibility to address immediate financial needs (Wang-Ly & Newell, 2022). Countries such as Australia, Chile, and the United States have adopted this early retirement plan to serve as a financial relief for the issues that were caused by the COVID-19 Pandemic. In Australia, this was done to provide financial relief to those who had been impacted by the lockdown measures brought by the COVID-19 pandemic. In Australia, this early retirement system was named the Early Release of Super (ERS) scheme, which allowed eligible citizens to withdraw up to A$20,000 in funds between April and December 2020. This early retirement system, known as the Two-Pot System, was also launched in South Africa as a potential solution to the need for financial security in old age with the flexibility to address immediate financial needs (Leibowitz, 2024). However, despite the buzz surrounding the Two-Pot Retirement System, current research has yet to fully understand how this innovative policy initiative will impact South Africa's public revenue, economy, and South Africans.

While its potential for improving individuals' retirement security while maintaining financial flexibility is promising, the extent to which it will affect government tax revenue, borrowing requirements, and overall fiscal stability remains uncertain. This gap in knowledge presents an opportunity for further investigation into the potential implications of the Two-Pot Retirement System for South Africa's public revenue system. Recent studies on the Two-Pot Retirement System have focused on its potential impact on retirement savings behaviour and financial stability. For example, a study conducted by Thela (2024) found that the Two-Pot System may encourage people to contribute more to their retirement savings, leading to a larger pool of funds for investment and growth. These sentiments are backed by other research, including a report by Ghosh (2024), which noted that similar initiatives in other countries have led to increased contributions to retirement savings, particularly among low-income earners who had previously struggled to save for retirement. However, the same report also cautioned that any increase in retirement savings may be offset by higher withdrawals if people choose to use the accessible pot as a short-term emergency fund rather than a long-term savings vehicle.

However, other studies have found that the introduction of the Two-Pot Retirement System could be advantageous for public revenue in South Africa (Cassidy, 2024). A study by Nesengani et al. (2024) argues that the taxability of withdrawals from the accessible pot represents a potential opportunity for government revenue generation, which could contribute to the funding of important social programs such as the National Health Insurance (NHI). In support of this, National Treasury (2024) argues that by leveraging the tax revenue generated from the Two-Pot Retirement System, the government could improve its ability to finance the NHI, contributing to the broader goals of achieving social equity and improving the overall health of the population. Moreover, a policy brief by Netshitenzhe (2024) noted that the Two-Pot Retirement System could encourage more people to invest in retirement savings, potentially leading to higher overall taxable income in the economy. This suggests that the Two-Pot Retirement System has the potential to contribute to a virtuous cycle of economic growth and tax revenue generation. These studies suggest that the Two-Pot Retirement System holds significant promise for public revenue generation in South Africa. While challenges may exist in terms of increased withdrawals and the potential misuse of accessible funds, the potential for increased tax revenues from withdrawals, coupled with the potential for increased overall taxable income due to more individuals participating in retirement savings, present an intriguing opportunity for the South African government to address its ongoing revenue challenges. Overall, this innovative system represents a potential game- changer for the country's fiscal landscape, and additional research is needed to thoroughly grasp its impacts and guarantee that its advantages are achieved.

2.2 The South African Public Revenue and The Two-Pot System

The Two-Pot Retirement System is a policy initiative introduced in South Africa to improve individuals' retirement security while offering greater flexibility in accessing retirement savings before retirement (National Treasury, 2024). It allows for one-third of the retirement funds to be preserved in a savings component that can be withdrawn at any time (the accessible pot) and the remaining two-thirds to be reserved for retirement (the preserved pot). The main aim of this system is to assist individuals with immediate financial needs. At the same time, it guides against the depletion of retirement funds. Thus, the system includes accessible and preserved pots.

The introduction of the two-pot system in South Africa marks a new paradigm from an economic policy perspective. In general, there are potential effects on individual financial decisions and government revenue. South Africa, like most countries, depends on taxation and borrowing as the main or primary sources of public revenue (Monamodi, 2021). Other sources of revenue for the South African public sector include revenue from tariffs and fees, as well as from state-owned enterprises such as Eskom and Transnet, although these contribute a smaller fraction of the total revenue. It goes without saying that successful public revenue generation is important for funding government spending, which translates into service delivery. The introduction of the Two-Pot Retirement System introduces a new dynamic to public revenue generation. Riekert (2025) states that it allows individuals limited access to a portion of their retirement savings, potentially leading to increased taxable withdrawals.

Consequently, this could result in higher personal income tax collections in the short term. While this may give a financial boost, particularly in times of economic strain, the extent of the revenue increase depends on the limits imposed on withdrawals. Moreover, the flexibility to access retirement funds raises questions about the long-term implications for public revenue and retirement adequacy. The system comes with pressure on the government to put up policies that ensure the effective capturing of these new taxable events for maximum benefit in terms of tax revenue. One important aspect to consider is not discouraging savings in the process of trying to maximise revenue collection. The system provides greater economic flexibility for those who will access part of their retirement funds, and this will change their consumption patterns in the short run (Sarpong & Sarpong, 2024). An increase in consumption, coming from an increase in income from the withdrawals from the two-pot system, will increase aggregate demand, which could potentially increase production and employment, with a potential trade-off in terms of inflation.

The government may need to look at policies to support the Two-Pot Retirement System and ensure that no inflation pressures are felt in the economy. Such policies include introducing a withdrawal cap or a restriction on the use of the withdrawn funds. These and other suggestions are presented further under the recommendations section of this paper. Social pressure and socioeconomic problems that are a result of economic instabilities can be alleviated with greater access to retirement savings. However, this largely depends on the behaviour of the individuals in response to access to part of their retirement funds. On one hand, the question will be whether this access leads to better financial decisions and outcomes, or on the one hand, if it will lead to more impulsive and unthought or uncalculated financial behaviours.

2.3 Fiscal and Economic Impacts

The recent introduction of South Africa's Two-Pot Retirement System, a novel policy initiative designed to strike a balance between retirement security and financial flexibility, has sparked debate about its potential impacts on the country's fiscal and economic health (Netshitenzhe, 2024). A critical gap in knowledge lies in understanding the potential impacts of the Two-Pot System on South Africa's public revenue generation, specifically in terms of its ability to offset the anticipated fiscal burden of an ageing population. While the system may encourage greater retirement savings and investment behaviour among the population, the extent to which this will lead to increased tax revenue and lower government spending on pension benefits is yet to be fully understood. This highlights the need for an in-depth analysis of the Two-Pot System's fiscal and economic implications. A comprehensive assessment must examine potential changes in household behaviour, such as increased retirement savings and investment, and how these might influence broader macroeconomic trends and government spending patterns. The body of literature on the fiscal and economic implications of the Two-Pot System is still relatively underdeveloped, but some preliminary insights have emerged from existing research. Studies such as Duddy (2024) and Leibowitz (2024) have highlighted the potential for increased tax revenue due to higher levels of investment and withdrawals from the accessible pot. For instance, Duddy (2024) found that the Two-Pot Retirement System could lead to additional tax receipts of up to 1% of GDP in the long term, if withdrawals from the accessible pot are appropriately taxed.

Leibowitz (2024), on the other hand, proposed that increased investment activity driven by the Two-Pot System could result in higher corporate and personal income tax revenues. However, there are contradicting views from scholars such as Burger (2024) who posit that the tax revenue benefits of the Two-Pot System may be offset by higher government spending on social assistance programs. Cassidy (2024) argues that withdrawals from the accessible pot may lead to increased dependency on government assistance during retirement, as individuals who have exhausted their accessible pot may be unable to support themselves. This, in turn, could lead to higher spending on social grants and other safety net programs, potentially nullifying the benefits of increased tax revenues. These studies indicate the complexities and interdependencies of the Two-Pot System's fiscal and economic impacts. On the one hand, the system's potential to increase retirement savings and investment behaviour could bolster tax revenues and reduce reliance on pension benefits, providing much-needed fiscal relief. On the other hand, the system's withdrawal provisions could have unintended consequences, leading to increased demand for government assistance and higher social spending.

2.4 Behavioural Economics

In recent years, behavioural economics has shed light on the psychological factors that influence financial decision-making. South Africa's Two-Pot System exemplifies how these insights are being integrated into policy design to facilitate better retirement savings choices (Van Zyl & Van Zyl, 2016). However, despite the growing body of knowledge in behavioural economics, the literature surrounding the Two-Pot System's behavioural impacts is still relatively limited. While there has been some investigation into the potential for loss aversion and mental accounting to influence savings decisions, a deeper understanding of the system's impact on financial literacy, decision fatigue, and other cognitive biases is necessary to fully evaluate its effectiveness in promoting financial stability and flexibility. Studies on the behavioural impacts of the Two-Pot System have primarily focused on the roles of loss aversion and mental accounting in retirement savings decisions. Research has shown that individuals tend to value the potential gains from investing in the retirement pot but are more strongly motivated by the desire to avoid losses from prematurely withdrawing funds from this pot (Reddy, 2023). This demonstrates that the Two-Pot System can harness the behavioural bias of loss aversion to encourage individuals to preserve their retirement savings.

On the other hand, some studies have proposed that the Two-Pot System's emphasis on flexibility may lead to poor retirement planning and decision fatigue (Botha, 2023). For instance, individuals who have multiple investment options, including the option to withdraw from the accessible pot, may be more susceptible to decision fatigue, leading to suboptimal choices in the long term (Visser, 2024). Furthermore, the concept of loss aversion may apply in this context, where individuals are more likely to withdraw funds from the accessible pot to avoid short-term losses, even if this may harm their long-term retirement savings (Tsatsi, 2023). Economists such as Camerer (2004), Jain and Kesari (2020), Korteling et al. (2023) argue that behavioural economics extends beyond loss aversion to mental accounting, highlighting the importance of considering other cognitive biases. Mental accounting, proposed by Jain and Kesari (2020), postulates that individuals mentally categorise their funds based on specific purposes, leading to different evaluations of the same economic outcomes based on the mental account from which the funds were drawn.

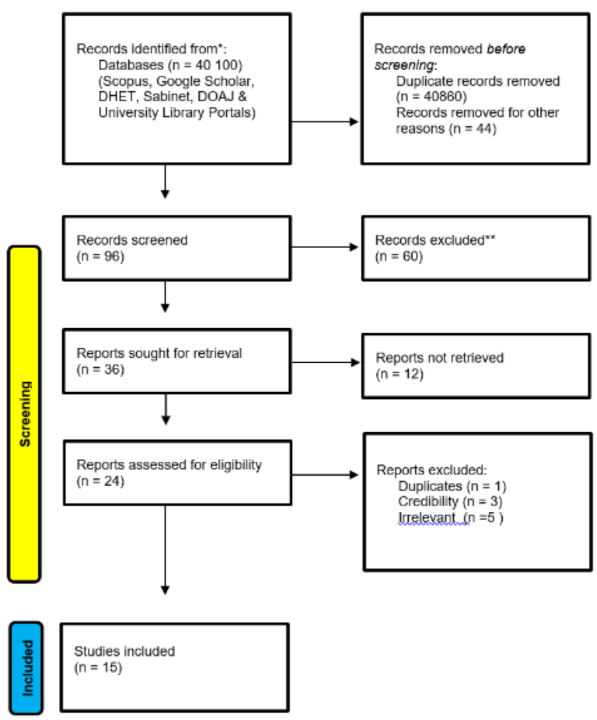
Under the Two-Pot System, the accessible pot may be perceived as a 'safe' or 'discretionary' mental account, leading individuals to justify or even encourage withdrawals from this pot for short-term consumption, without considering the long-term impacts on their retirement savings (Ghosh, 2024). In conclusion, these studies reflect the intricate interplay between behavioural economics and financial decision-making, particularly within the context of South Africa's Two-Pot System. While the system shows promising potential for harnessing behavioural biases like loss aversion to encourage retirement savings, there remains a pressing need for a deeper examination of other cognitive biases, such as mental accounting and decision fatigue. Effective policy design in this domain must account for the complex psychology of financial decisions, acknowledging that simply providing additional choice and flexibility may not always lead to optimal outcomes.

3. Research Methodology

This paper employed a systematic review, a thorough, clear, and repeatable method for combining existing research on a specific topic (Siddaway et al., 2019). This method was chosen to develop a comprehensive understanding of the Two-Pot Retirement System and its potential impact on South Africa's public revenue. The selection and review of literature followed the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) model to ensure methodological transparency and rigor. The PRISMA flow diagram guided the identification, screening, eligibility assessment, and final inclusion of sources. A structured search process was conducted using reputable academic databases, including Scopus, DHET, Web of Science, DOAJ, Google Scholar, and university library portals, as well as official government websites and publications. Boolean operators (AND, OR) and keywords such as "Two-Pot Retirement System South Africa," "economic impact of the Two-Pot System," "retirement reform and public revenue in South Africa," and "pension fund withdrawals in South Africa" were used to narrow and refine search results. The paper used a PRISMA diagram, as illustrated in figure 2.

Figure 2

PRISMA diagram



As shown in figure 2, the paper includes 15 studies. The criteria for inclusion and selection were based on the publication years of these documents, although this did not apply to any legislative frameworks or policies. To ensure the relevance and currency of the data, only scholarly works published between 2020 and 2025 were included. Earlier works were excluded to prioritize contemporary developments and policy discussions surrounding the recently introduced system. The inclusion criteria also limited sources to English-language publications, which may introduce linguistic bias by excluding potentially valuable non-English research. The primary reason for omitting non-English publications is that the authors are not proficient in other languages. Additionally, they were unable to hire a translator due to time and cost constraints.

The selected data were analyzed using thematic synthesis, which enabled the categorization of findings into primary themes and sub-themes, including "Opportunities for South African Public Revenue," "Revenue Generation Potential," "Household Savings Behaviour," "Potential Economic Risks," and "Public Perception and Trust in the System." While thematic synthesis is well-suited for identifying patterns across qualitative data, it is important to acknowledge its limitations, such as the potential for subjective interpretation of themes and the exclusion of quantitative insights, which may constrain the scope of analysis. Nonetheless, triangulation across multiple data types, including academic, policy, and legislative sources, was employed to enhance the credibility and dependability of the findings.

4. Findings and Discussions

4.1 Opportunities of the Two-Pot System for South African Public Revenue

The two-pot pension system, in general, is aimed at providing greater flexibility and addressing the pressing need for financial resilience in the face of South Africa's high levels of economic inequality and financial vulnerability. The idea of separating funds into different pots guides against the potential temptation of digging into long-term savings. In other words, it forces individuals to improve their saving discipline while at the same time allowing them flexibility with the accessible pot. This helps those individuals who may be in immediate need of funds by reducing their reliance on high-interest loans or credit in emergencies (Opperman, 2024). Most individuals who rely on credit or loans usually end up in long-term financial strains. In general, most South Africans cannot afford to save mainly because of lower disposable income (Sekhosana, 2021). The two-pot system can therefore provide a motivational, easier, and flexible path to saving. If this is conducted and administered well can attract and encourage participation in retirement savings. The increase in participation can increase savings, which in turn can grow the economy. On the other hand, the funds in the preserved pot will continue to grow until retirement and may then provide security for the future. The main opportunities that the two-pot system presents for South Africa can be divided into two main areas: revenue generation potential and impact on household savings behaviour, which are discussed below.

Revenue generation potential. When an individual withdraws from their retirement fund under the two-pot system, this withdrawal will be added to one's taxable income and taxed at the marginal rate (Sarpong & Sarpong, 2024). Although it creates a higher tax burden on the part of the taxpayer, this presents an opportunity for revenue generation for the government. As people withdraw from their retirement funds, aggregate demand for goods and services may increase as consumers will have a higher disposable income. This increases tax revenue collected by the government in the form of Value Added Tax (VAT). For example, a higher tax revenue over time could, in turn, have spillover benefits on the economy. This could also result in reduced reliance on state pension or social welfare, which results in the freeing up of public funds for other uses. The impact on public revenue can be a complex one with both potential benefits and shortfalls. On one hand and as discussed above, greater withdrawals could stimulate consumption and increase VAT receipts. On the other hand, if withdrawals are misused or too frequent, they may create a dependency on government social safety nets, possibly raising government expenditure.

Impact on household savings behaviour. The two-pot system has the potential to positively impact the saving behaviour of households and create opportunities for financial stability and increased savings. According to the South African Reserve Bank (2024), this pension reform is expected to raise the retirement savings pool. This is because employees will be unable to withdraw their entire pension fund savings upon resignation. Additionally, households will most likely be motivated to continue saving through their contribution to the retirement fund knowing that the two-pot system allows one portion of the fund to be earmarked for emergencies or any other short-term goal and the other portion to secure a stable lifestyle in the long-run. More individuals will therefore become more flexible to save. In this sense, the two-pot system encourages regular saving behaviour by households which in turn allows for economic growth and even more savings because of the growth. Further, the system may allow for greater financial discipline and attitude towards saving and budgeting. This is because it provides a clear distinction of funds for planning as well as a sense of security in the event of unexpected expenses and financial shocks. The two-pot system enhances financial planning as it encourages individuals to align their savings goals with their goals, financial needs, or targets.

4.2 Potential Risks of the Two-Pot System for South African Public Revenue

Potential economic risks. The introduction of the Two-Pot System presents various economic hazards that might compromise its goals. Mogashoa (2023) emphasizes that a major issue is the potential decrease in retirement savings. This arises from allowing pension fund members access to a third of their retirement money, which poses the risk of them favouring immediate needs over long-term financial stability. Over time, this could result in societal shortages in retirement savings. Conversely, this system generates significant government revenue, as Opperman (2024) highlighted that by 18 November 2024, shortly after the system's implementation, the South African Revenue Service (SARS) had issued over 1.9 million directives worth over R35 billion. However, it is crucial to recognize that in the future, this might lead to a scenario where many pension fund members deplete their savings by the time they retire. Consequently, many will depend on South Africa's social security systems, like SASSA old age grants. In other words, this could increase the demand for government-funded social security grants, potentially putting pressure on the national budget moving forward. It is important to note that this system is considered a good government strategy as it quickly generates revenue and addresses financial issues caused by the COVID-19 pandemic. However, Rikhotso (2023) warns that despite its advantages, this approach may also introduce new challenges that pension fund beneficiaries have not encountered before. Opperman (2024) suggests that potential issues with mismanagement of accessible funds might arise.

This implies that pension fund beneficiaries may spend their funds primarily on wants rather than needs. For instance, consumers might increase spending on items such as fast food, alcohol, and other entertainment expenses, whereas the funds could be more wisely invested in education, healthcare, or housing. Sarpong and Sarpong (2024) caution the country that this financial mismanagement mirrors the behaviours seen in lottery winners, who often waste their money and return to their former economic conditions. This risk is especially significant for low-income earners who might focus on immediate financial demands due to socioeconomic pressures (Opperman, 2024). Such behaviour is driven by systemic issues like high living costs and stagnant wages, leading consumers to prioritize immediate needs over long-term security. For this system to function correctly, financial literacy is essential, as improper use of these funds could cause many pension fund beneficiaries to fall into debt cycles or financial instability, worsening poverty and inequality. It is essential to remember that the National Development Plan (NDP): Vision for 2030 aims to reduce poverty and inequality (Republic of South Africa, 2013), and the improper use of these funds would counteract this plan. As a result, it would lead to more poverty and inequality within the country. Additionally, this system may inadvertently encourage inequality among pension fund beneficiaries, as low-income earners with smaller retirement savings might have limited access to substantial withdrawals. Conversely, higher-income individuals with more significant retirement savings could benefit more markedly by withdrawing annually.

Furthermore, taxing early withdrawals could unfairly burden low-income earners since a more considerable portion of their available funds could be taxed, leaving them with much less disposable income. Rajgopaul (2024) illustrates this by showing that for a minimum withdrawal of R2,000, the expected tax is R720 (at a 36% tax rate), leaving R1,280 after tax. In the case of a R30,000 withdrawal, the tax would be R10,800 (also at 36%), resulting in an after-tax amount of R19,200. This shows that most of these funds withdrawn from the two pots go to SARS, leaving pension fund members with less income in their hands. On the other hand, the macroeconomic effects of the Two-Pot System should not be overlooked. If a substantial number of pension fund members withdraw funds at the same time, it could affect financial markets and diminish the pool of funds available for long-term investment. Retirement funds typically serve as investment capital for infrastructure, bonds, and other public-private projects. A decrease in the investment pool might limit the funds available for essential development projects, indirectly impacting economic growth and the creation of employment, which is crucial for a country like South Africa with high unemployment rates.

Public perception and trust in the system. The effectiveness of the Two-Pot System largely relies on how the public perceives and trusts it. As reported by Timeslive (2024), this system in South Africa is considered a beneficial strategy as it offers essential aid to countless workers and their families overwhelmed by debt and the rising cost of living. However, Polity (2024) notes that in its current form, the Two-Pot system does not provide the reform workers sought. It is believed that instead of offering relief from debt, it may lead to insufficient retirement savings. Consequently, if the public views the system as unreliable, overly complex, or financially perilous, there might be less participation from contributors. This could diminish the funds available for taxation and public revenue. According to a survey conducted by JustMoney (2024) on the perceptions of South Africans of the new two-pot system indicated mixed emotions as emanating greatly from respondents not being too sure or aware of the long-term effects of withdrawing. About 23% of the respondents indicated uncertainty and hesitance on withdrawing the funds whereas about 49% indicated without hesitation their intention to withdraw. This paper is of the notion that the public still needs to be educated on this system to clear any perceptions.

Fears of possible tax policy changes or future government interference might also foster scepticism about the government's goals, especially if contributors suspect the government might restrict access to their retirement savings later on. Trust issues could arise if contributors think the system is aimed mainly at increasing state revenue rather than safeguarding their financial interests. Therefore, it is crucial to inform the public about how the Two-Pot system operates to prevent contributors from making poorly informed financial choices, like unnecessary withdrawals or relying too heavily on the accessible pot. Without clear, ongoing communication, the system may be perceived as too complicated, leading to decreased participation and trust. This underscores the importance of financial literacy programs to educate contributors on optimizing the benefits of the Two-Pot System. If these issues remain unaddressed, public support for the system may wane, reducing overall involvement and trust in South Africa's wider pension reforms.

4.3 Lessons for South Africa

According to ETM (2024), the two-pot system in South Africa draws its lessons from countries like Chile and Peru’s experiences, where relaxed withdrawal rules led to significant fund reductions and economic challenges. Chile’s pension system mandates workers to contribute a percentage of their income into individual retirement accounts, primarily for use upon retirement. The Chilean government allowed workers to withdraw a portion from these accounts during the economic crisis to cope with immediate needs, which could include medical or unemployment emergencies. While this system has allowed access to savings for emergencies, which can be viewed as a benefit, it has come with a potential cost of long-term financial security issues. The major problem was that of a depicted retirement fund and long-term financial insecurities (Madeira, 2022). For Chile, allowing many rounds of withdrawal led to the undermining of the purpose of retirement funds/savings, and many people depleted their accounts. This poses a future risk in that, upon retirement, the pension funds available may be inadequate. This will spill out into fiscal pressure as the reliance on the government will increase.

Additionally, in countries like Chile, where little trust is placed in institutions managing retirement trust, the two-pot system has the potential of increasing savings disincentives, which further reduce retirement funds and adversely affect the economy. The lesson here for SA is that careful consideration of the balance between short-term access and long-term retirement security with the aim of securing or protecting long-term retirement, is needed. According to the South African Reserve Bank (2024), the net tax revenue initially increased sharply as withdrawals and spending thereof increased, although it came with a decline in pension funds' assets. Australia and Singapore also provide useful lessons for South Africa. Australia's superannuation system, where workers contribute to retirement savings accounts, and the government allows workers to withdraw up to $10 000 during the 2020-2021 period (ETM, 2024). Although this move was aimed at providing financial relief, there were controversies with regard to its impact on retirement savings in the long run. Singapore likewise has a Central Provident Fund (CPF) System that requires citizens and permanent residents to contribute a portion of their income to a mandatory CPF scheme meant for housing, healthcare, and retirement savings (ETM, 2024).

The CPF allows withdrawals for specific purposes like housing and healthcare, and in doing so, aims at promoting financial security for both immediate needs and security during retirement. To guide against the long-term risk, Singapore does not allow the funds to be fully accessed until an individual reaches a certain age (ETM, 2024). The important lesson from this model is the emphasis on earmarking funds for specific purposes while allowing some flexibility. The focus on housing and healthcare as valid reasons for withdrawing can be emulated and aligned with the two-pot system of separation of short-term needs and long-term savings. This lesson points to discouraging withdrawal without justifiable causes. All the case studies presented above point to the need for South Africa to monitor the two-pot system and guide against the possible long-term effects on retirement security problems that normally come with such a system. South Africa, in a nutshell, needs to guide against the potential risks of the two-pot system by ensuring that it guides the use of the withdrawals and limits them to genuine emergencies or genuine expenditures that have long-term benefits, for example, obtaining a house. This can be done by making use of a systematic system that requests proof of an emergency. Above all, the South African economy needs financial literacy to be able to understand the impact of its financial decisions. This can equip the public with responsible use of the accessed funds.

Lastly, this research proposes a policy on incentivising those who keep a certain amount or those who continue saving their funds to avoid the depletion of the retirement fund. According to ETM (2024), the two-pot system in South Africa draws its lessons from countries like Chile and Peru’s experiences, where relaxed withdrawal rules led to significant fund reductions and economic challenges. Chile’s pension system mandates workers to contribute a percentage of their income into individual retirement accounts, primarily for use upon retirement. The Chilean government allowed workers to withdraw a portion from these accounts during the economic crisis to cope with immediate needs, which could include medical or unemployment emergencies. While this system has allowed access to savings for emergencies, which can be viewed as a benefit, it has come with a potential cost of long-term financial security issues. The major problem was that of a depicted retirement fund and long-term financial insecurities (Madeira, 2022). The lesson here for South Africa is that careful consideration of the balance between short-term access and long-term retirement security with the aim of securing or protecting long-term retirement, is needed.

According to the South African Reserve Bank (2024), the net tax revenue initially increased sharply as withdrawals and spending thereof increased, although it came with a decline in pension funds’ assets. Australia and Singapore also provide useful lessons for South Africa. Australia’s superannuation system, where workers contribute to retirement savings accounts, and the government allows workers to withdraw up to $10 000 during the 2020-2021 period (ETM, 2024). Although this move was aimed at providing financial relief, there were controversies with regard to its impact on retirement savings in the long run. Singapore likewise has a Central Provident Fund (CPF) System that requires citizens and permanent residents to contribute a portion of their income to a mandatory CPF scheme meant for housing, healthcare, and retirement savings (ETM, 2024). The CPF allows withdrawals for specific purposes like housing and healthcare, and in doing so, aims at promoting financial security for both immediate needs and security during retirement. To guide against the long-term risk, Singapore does not allow the funds to be fully accessed until an individual reaches a certain age (ETM, 2024). The important lesson from this model is the emphasis on earmarking funds for specific purposes while allowing some flexibility. The focus on housing and healthcare as valid reasons for withdrawing can be emulated and aligned with the two-pot system of separation of short-term needs and long-term savings. This lesson points to discouraging withdrawal without justifiable causes. All the case studies presented above point to the need for South Africa to monitor the two-pot system and guide against the possible long-term effects on retirement security problems that normally come with such a system.

5. Conclusion and Recommendations

From a fiscal perspective, the paper concludes that the Two-Pot Retirement System presents both opportunities and risks. It is important to take note that this system may increase public revenue through the taxation of withdrawals from the accessible pot. On the other hand, if not carefully managed, the system could pose a risk to long-term fiscal stability. Increased access to retirement savings may lead to lower aggregate savings rates over time, potentially reducing the capital available for long-term investment and putting pressure on future social security systems. A decrease in the overall pool of retirement savings could also lead to increased dependency on state-funded old-age grants, thereby straining public finances in the long run. Lessons from other international experiences, from countries such as Chile and Peru, indicate that lenient pension withdrawal regulations during times of economic crisis resulted in an alarming depletion of retirement funds. This ultimately left many people financially vulnerable and uncertain in their older age.

To mitigate the risk of misuse and impulsive withdrawals, the paper recommends several measures. These include setting annual withdrawal caps, implementing mandatory waiting periods before accessing funds, and requiring that a portion of the accessible pot remain untouched to act as a buffer. Moreover, financial safeguards like mandatory financial counselling before large withdrawals can improve responsible decision-making. In addition, enhancing financial literacy among retirement fund members is critical. Many individuals may not understand financial matters well, increasing the risk of impulsive or uninformed withdrawals. Implementing nationwide financial literacy programs, especially for low-income earners and young workers, can encourage long-term savings. These programs can also reduce dependency on state support in retirement.

The paper concludes that the Two-Pot Retirement System has the potential to advance both individual financial well-being and national fiscal health. However, its success depends on careful design, implementation, and oversight. To align with South Africa's broader development agenda, the system must be managed in a way that supports SDG 1 (No Poverty), SDG 8 (Decent Work and Economic Growth), and SDG 10 (Reduced Inequality), while contributing to the NDP 2030 objectives of reducing poverty, expanding employment, and strengthening social protection. Effective regulation, greater financial literacy, and strategic fund use are essential to ensure the Two-Pot System balances immediate financial relief with long-term retirement security.

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