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Before You Dip into Your Two-Pot: The Hidden Gamble of Early Pension Access

South Africans live in a cash strapped consumer environment. The reality for many is that frequently we find ourselves dipping into our personal savings, if any, or making loans to cover our day-to-day expenses. This financial strain often results in people claiming their Two-Pot retirement withdrawals, to fill the gap between income and spending needs. The Two-Pot system now allows limited early access to retirement savings without the need to resign or retire.

It is important to remember that the long-term effects of the yearly withdrawal can have a major impact on your future retirement savings.

When we look at our retirement planning, the question remains on whether we are gambling with our pension or using the Two-Pot system only as a last resort. As members of retirement funds, we get notified when the next withdrawal cycle opens for the new tax year. This notification does **not** necessarily mean that we should use it as a yearly cash allowance to fund day-to-day expenses.

According to our own in-house retirement fund administrator, Verso Benefits Administrator, since the new tax year opened four weeks ago, a significant number of members have already submitted Two-Pot withdrawal applications. This illustrates the financial pressure within our economic landscape and the temptation to utilise this benefit. According to a recent article in the Daily Investor, Alexander Forbes indicated that 31% of the retirement fund members who took Two-Pot savings withdrawals in 2026, had also taken Two-Pot savings withdrawals in 2024 and 2025. Should these members continue with this trend, the impact is that the amount which they will have access to as a cash lumpsum amount at retirement, will either be zero or significantly less. This will impact on the members' ability to do things such as house refurbishments, purchase a car, go on a long dreamed about holiday when they retire; Or they will not have access to funds in the event of a REAL financial emergency.

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Before submitting a Two-Pot withdrawal claim perhaps one should consider the following questions:

1. What am I spending my money on, that I need to rely on Two-Pot to cover expenses?
2. What happens for the rest of the year when a financial emergency occurs, if I have already claimed and used the Two-Pot money?
3. If you didn't have access to the Two-Pot savings, what would you do to meet your financial obligations?
4. Am I aware of the tax implications and that SARS is taking a large portion of the benefit amount?
5. Are my SARS affairs in order, as SARS is allowed to take the Two-Pot amount to address any debt owed to SARS?
6. The effect on compound interest within my pension, as well as my 1/3'rd at retirement. Two-Pot reduces the interest (growth) your retirement fund could have accumulated on the monies you took as Two-Pot. It also reduces the amount of cash you will have access to in your bank account at retirement.

It is a reality that the long-term consequences feel distant compared to immediate needs. However, we need to take a moment to reflect on the" immediate" need, and how we can ensure a more stable financial future *and* a healthier savings culture.

Reasons why the need arises to withdraw from our Two-Pots on a yearly basis:

1. <u>Cost of living pressure and cash flow stress:</u>

- Rising food, fuel and electricity costs
- High interest rates on debt (credit cards, personal loans, vehicle finance)
- Stagnant wage growth
- Industry data shows that nearly half of South African households cannot cover unexpected expenses without borrowing or using savings, making the savings pot an attractive source of quick liquidity

2. Debt repayment is a key driver:

- Settle store cards or microloans
- Pay outstanding amounts on loans
- Bond or rent payments
- About 40% of credit active South Africans are in default on at least one loan, which explains why retirement savings are being used as an emergency buffer

3. Life expenses rather than "emergencies":

- School fees
- Household expenses
- Medical gaps
- Transport and fuel

4. Not understanding the long-term cost of Two-Pot withdrawal and a lack of financial education:

- The tax impact (withdrawals are taxed as ordinary income)
- The loss of compound growth and its benefit
- **Lack of proper budget and cash flow planning**
- **Limited education on financial and retirement planning**
- **Difficulty in accessing specialists to provide advice**
- Financial background and how we were raised with regards to financial decision making

Taking the above considerations into account, it is important for each of us to know our cashflow position. This will allow us to make financially informed decisions. It is important to ensure that we do not gamble with our pension savings. Even more important is to ensure that we accumulate sufficient funds for a relatively-stress free and comfortable retirement.

How can we equip ourselves to make more financially sound decisions:

1. Seek advice from a financial planner. A financial planner will assist you to decide on your future goals. The next step will be to devising a plan (roadmap) to achieve these goals. The financial planner will look at your current income, expenses and cash-flow to try to help reduce your need to use your Two-Pot savings, while also assisting to ensure sufficient funds to meet the objectives of your long-term financial plans.

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2. Sit together as a family to plan around the day-to-day expenses as well as for emergencies. Use the input of each family member to implement better spending and saving habits.
3. Revisit your budget (spending plan) as frequently as possible to reduce overspending. A good habit is to write down every sent you spend. Consider yearly increases in expenses as well as salary, to determine and ensure that your expenses are not exceeding your income.
4. Revisit your personal spending habits monthly by looking at each cent spent and where you can utilise your salary more effectively.

As South Africans, we feel the constant economic pressure of rising costs and unemployment. We tend to focus on our daily financial pressures instead of saving for the future. We are in a continuous "fight or flight" mode with our finances. Therefore, we encourage you to speak to us or your financial planner to ensure that your *financial planning needs* align with your financial circumstances. This will allow you to gain more in-depth knowledge and tools to help better manage your cash flow.

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Should you wish to take the conversation further, please do not hesitate to contact Verso Wealth at info@verso-wealth.co.za.