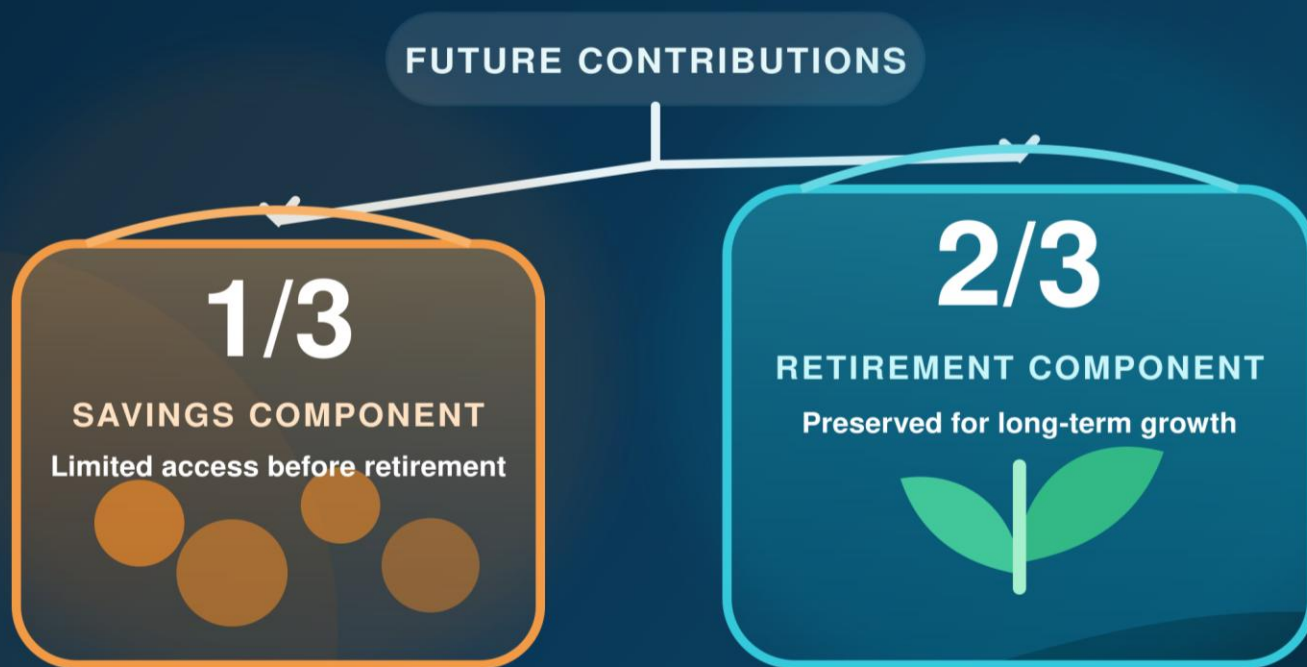


TWO-POT WITHDRAWALS

The impact on long-term
retirement savings

Access today or Protect tomorrow



Prepared by the
Total Reward Knowledge Hub

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The annual withdrawal that could cost more than R1 million

Access to the savings component can provide genuine relief in an emergency. Used every year, however, it can materially reshape an employee's retirement outcome.

The two-pot retirement system was designed to solve a real tension: employees need limited access to money in a financial crisis, but they also need meaningful preservation for retirement. The danger is that an emergency facility can quietly become an annual spending facility.

How annual access changes the outcome

Since 1 September 2024, one-third of new retirement-fund contributions is generally allocated to a savings component and two-thirds to a retirement component. A member may normally make one savings withdrawal in a tax year, with a minimum withdrawal of R2,000, provided enough is available. There is no requirement to withdraw annually; money left in the savings component remains invested and continues to grow.

Every withdrawal creates three costs. First, it removes capital that would otherwise compound. Second, the amount is added to taxable income and taxed at the member's applicable marginal rate. Third, the fund may deduct an administration fee. The cash received can therefore be materially less than the amount removed from retirement savings.

The protected retirement component remains invested, so an annual withdrawal does not wipe out the entire retirement benefit. It does, however, repeatedly remove one-third of new contributions and all future growth that those contributions could have earned.

HOW ANNUAL ACCESS CHANGES THE OUTCOME

1/3 Savings component vs **2/3 Retirement component**

Every withdrawal creates three costs

- 1** Lost compound growth
- 2** Income tax
- 3** Administration fee

Emergency access — not annual spending

The infographic features a woman in a blue blazer sitting at a desk with a laptop, looking thoughtful. The background shows a cityscape with a mountain peak.

A clear example

Consider an employee earning R30,000 a month who contributes 15% of salary to a retirement fund - R4,500 a month. In this simplified example, R1,500 a month goes to the savings component and R3,000 to the retirement component.

Assume salary and contributions increase with inflation; the investment earns 4% a year after

inflation and the employee has 30 years until retirement. If the employee makes no withdrawals, the full annual contribution of R54,000 could grow to approximately R3.03 million in today's money. If the employee withdraws the full R18,000 savings allocation at the end of every year, only the protected R36,000 annual retirement allocation remains invested. That could grow to approximately R2.02 million.

Now add tax. At an illustrative marginal tax rate of 26%, an R18,000 withdrawal would leave R13,320 before any administration fee. R4,680 is lost to tax immediately. Repeating this over 30 years means withdrawing R540,000 gross and receiving about R399,600 after tax, in today's money and before fees, while giving up an estimated R1.01 million at retirement. The figures are illustrative, but the compounding principle is not.

Illustrative impact of taking the full annual withdrawal over 30 years

PROJECTED RETIREMENT VALUE

The difference is not only what is withdrawn.
It is also the investment growth that money could have earned.



WITHOUT ANNUAL WITHDRAWALS

R3.03 million



WITH FULL ANNUAL WITHDRAWALS

R2.02 million

VALUE LOST
R1.01m

33% LOWER value from future contributions at retirement

ACCESS TODAY OR PROTECT TOMORROW?

GROSS CASH ACCESSED

R540,000

ESTIMATED FUTURE VALUE LOST

R1.01 million

Illustrative example: R18,000 withdrawn annually for 30 years; 4% real return.

Actual outcomes depend on contributions, investment returns, tax and administration fees.

The R1.01 million shortfall relates only to contributions made over the 30-year period in this example. An employee with an existing vested component would see a smaller percentage reduction across the total account, but the rand cost of annual access remains substantial.

The better question

The two-pot system is not the problem. Used as intended, it can prevent an employee from resorting to expensive unsecured debt or resigning simply to access retirement savings. The real risk is normalising the withdrawal as part of the annual household budget.

Before accessing the savings component, employees should ask: Is this a genuine financial emergency? What will I receive after tax and fees? What will this amount become if it remains invested? And is there a less damaging alternative?

For employers, this is also an Employee Value Proposition issue. Financial education should move beyond explaining how to withdraw and help employees understand the future value they are surrendering. The savings component is an emergency valve - not an annual bonus. The most valuable withdrawal may be the one an employee chooses not to make.

Employer responsibilities and risks under the two-pot system

The two-pot system gives employees greater flexibility, but it also creates a new responsibility for employers. While the decision to withdraw belongs to the employee and the transaction is processed by the retirement fund, employers have an important role in ensuring that access does not become normalised as part of an employee's annual income.

Employers are not responsible for approving withdrawals, calculating the tax due or determining whether an employee's reason for withdrawing is valid. Members must apply directly to their retirement funds, and the fund is responsible for processing the application and obtaining the required SARS tax directive. The employer's responsibility is therefore primarily one of governance, communication, education and employee support.



THE BETTER QUESTION

Before withdrawing, ask:

- 1 Is this a genuine financial emergency?
- 2 What will I receive after tax and fees?
- 3 What could this money become if it remains invested?
- 4 Is there a less damaging alternative?

The most valuable withdrawal may be the one you choose not to make.

Effective communication

Clear communication is essential. Employees should understand that the savings component is not an annual bonus and that there is no requirement to withdraw each year. Money that remains invested continues to earn fund returns and remains available for a future emergency or retirement. National Treasury specifically advises members to use the savings component sparingly and only when there is a serious financial need.

Employers should also ensure that employees understand the tax implications. Withdrawals are taxed at the employee's marginal tax rate, and any outstanding tax debt may be deducted from the amount paid. Once the fund submits the withdrawal application to SARS for a tax directive, the decision cannot be cancelled. Employers should therefore avoid communicating estimated net payments as guaranteed amounts.

Financial education should help employees assess both the immediate benefit and the long-term cost. Before withdrawing, employees should be encouraged to consider:

- Whether the expense is a genuine emergency.
- The amount they will receive after tax and fund administration fees.
- The future value of the amount if it remains invested.
- Whether another part of their household budget can be adjusted.
- The effect of repeated withdrawals on retirement adequacy.

Employers should provide general education without giving individual financial advice. HR teams, payroll staff and managers should not tell employees whether they should withdraw or recommend a specific course of action based on limited information. Where personal advice is required, employees should be referred to the retirement fund, an accredited financial adviser or an appropriate financial-wellness service.

Operational accuracy and POPIA

Operational accuracy is another important employer responsibility. Employers should work with their retirement fund and administrator to ensure that employee information, pensionable salaries, contribution schedules, identity numbers and contact details are accurate and submitted on time. Incorrect or outdated information can delay transactions, cause applications to be rejected or create unnecessary frustration for employees.

Employee privacy must also be protected. A withdrawal is a personal financial decision. Employees should not be required to disclose the reason for withdrawing to a manager, HR representative or colleague. Where the employer becomes aware of an employee's financial circumstances, that information should be treated as confidential and should not influence performance assessments, promotion decisions or employment opportunities.

Employer risks beyond administration

Frequent withdrawals may indicate growing financial pressure within the workforce. Over time, this can contribute to inadequate retirement outcomes, delayed retirement, increased requests for employer assistance and greater pressure on other employee benefits. Financial stress may also affect productivity, absenteeism, engagement and mental wellbeing.

There is also a reputational and Employee Value Proposition risk. If employees believe the organisation encouraged them to withdraw without properly explaining the tax and long-term consequences, the employer may be blamed for poor retirement outcomes—even though the withdrawal decision was ultimately made by the employee.

Other risks include inaccurate payroll or fund data, inconsistent communication, employees receiving unqualified financial advice from managers, breaches of financial privacy and increased pressure on HR teams to resolve withdrawal delays that fall outside the employer's control.

Employers should monitor withdrawal patterns at an aggregated level, where this information is available from the fund and can be used without identifying individual employees. A material increase in withdrawals should be treated as a workforce financial-wellbeing indicator. It may point to affordability pressures, high employee debt, transport-cost increases, inadequate emergency savings or broader weaknesses in the Employee Value Proposition.

The employer's role is not to prevent employees from accessing their own money. It is to ensure that employees make informed decisions and understand the long-term trade-off. The two-pot system should remain an emergency mechanism—not become an expected annual source of cash. The greatest employer risk is allowing short-term access to quietly undermine the long-term retirement security the fund was established to provide.

Sources

- [South African Revenue Service: Tax directives and the tax implications of the two-pot retirement system](#)
- [National Treasury: Two-Pot Retirement System - Updated FAQ, August 2024](#)
- [SARS: Two-Pot Retirement System Calculator](#)
- [National Credit Regulator fee framework](#)

Illustrative assumptions: The example assumes the full 15% contribution is invested, annual contributions rise with inflation, a 4% real annual return, year-end withdrawals, a constant 26% marginal tax rate, and no administration fee. Actual outcomes depend on the fund, fees, returns, contribution structure, tax position and withdrawal timing. This article is educational and not personal financial advice.