Union warns public servants against repeated two-pot withdrawals

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The PSA has warned public servants against repeatedly withdrawing retirement savings through the two-pot system, saying short-term financial relief could leave workers with significantly less money at retirement

Image: ChatGPT

The Public Servants Association (PSA) has warned public servants against repeatedly dipping into their retirement savings to deal with rising living costs and mounting debt.

IOL previously reported that South Africa's two-pot retirement system is increasingly being used by middle-class households to cope with rising living costs and debt, with many members making repeat withdrawals from their retirement savings.

According to new data from Momentum Corporate, 52% of members who are eligible to withdraw from their savings component have already done so.

The union said repeated withdrawals could provide short-term financial relief but leave workers with significantly less money available when they retire.

"Whilst a withdrawal from the accessible savings component may provide short-term relief, it can have a significant and lasting impact on an employee's financial position at retirement," the union said.

Debt driving repeat withdrawals

"The PSA is alarmed by reports indicating that debt is driving repeat withdrawals from retirement savings amongst middle-income South Africans."

It added that workers risk falling into a cycle of using their retirement savings to pay off debt, only to accumulate more debt and make further withdrawals.

The PSA urged public servants to consider alternatives such as reviewing their monthly spending, negotiating repayment arrangements with creditors and seeking financial advice before accessing their retirement savings.

"Employees should seek financial advice, review their monthly expenditure, negotiate debt repayments with creditors, and investigate available debt management interventions before accessing retirement savings. A withdrawal should only be considered after these alternatives have been exhausted and where there is genuine, pressing financial need."

"The PSA is particularly concerned about repeat withdrawals. Using retirement savings to pay off debt, only to accumulate further debt and then make another withdrawal, creates a damaging cycle that progressively erodes an employee's retirement security."