

## GETTING RETRENCHED? ARM YOURSELF WITH KNOWLEDGE

### Retrenchment and your retirement savings

When the economy is struggling, companies may restructure, downsize or close. Being asked to leave your employer – through no fault of your own – can be stressful. It can feel like a divorce – unexpected and hurtful. Let's help you navigate life after retrenchment.



### Deal with the initial shock

Even if you were expecting it, nothing can prepare you for that moment when you get told you will be retrenched. Before you get started on your retrenchment plan, and if you can, take a day or two to process what has happened to you. It is better to plan your future with a positive mindset.

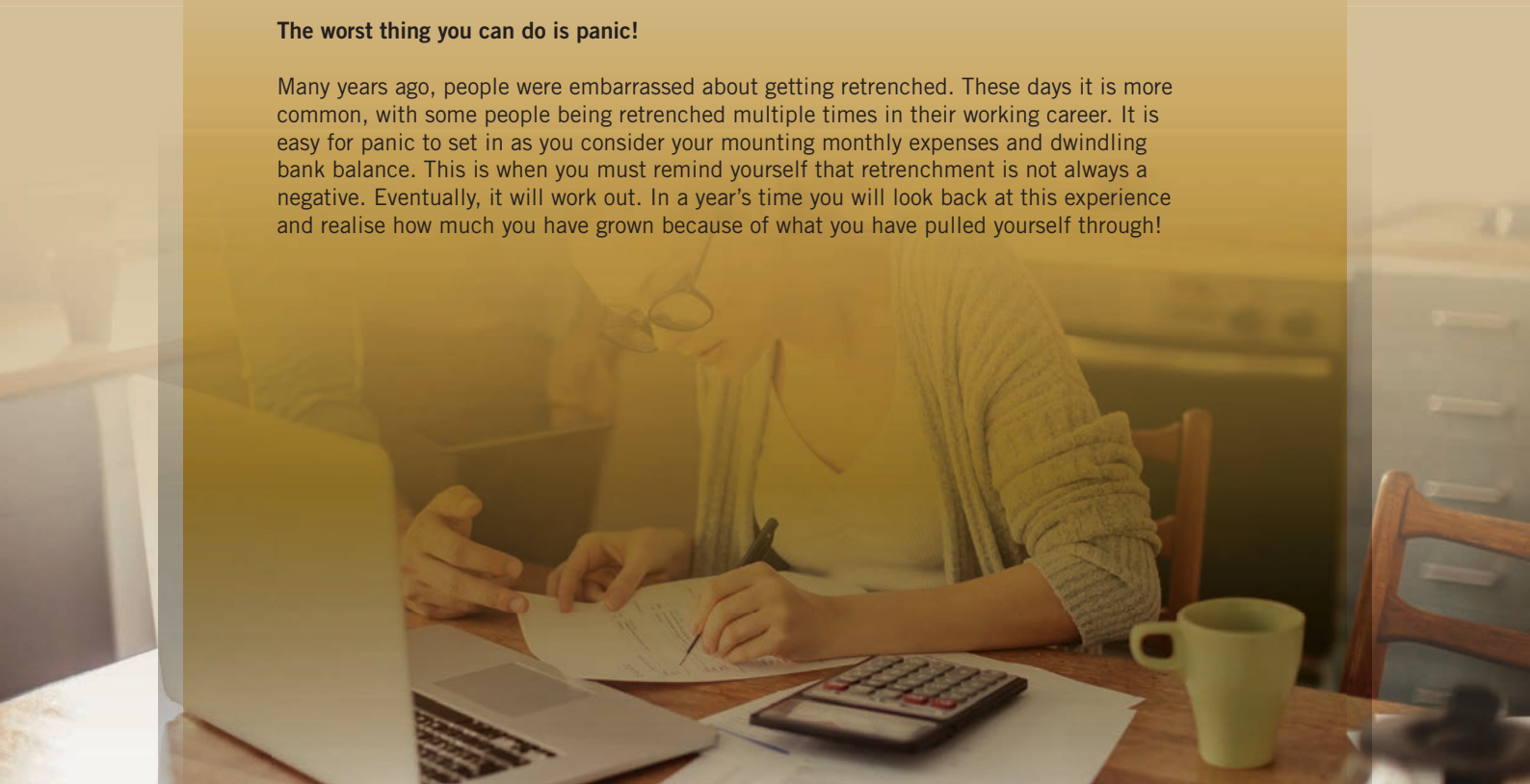
### Accept that you will experience a roller-coaster ride of emotions

You may experience high levels of stress and anxiety caused by the uncertainty of your future. Why you? Why now? How will you cope financially? How long will it take to find another job? Who can you count on for support? Take time to process these emotions. It's normal to experience these feelings at different times and in different ways:



### The worst thing you can do is panic!

Many years ago, people were embarrassed about getting retrenched. These days it is more common, with some people being retrenched multiple times in their working career. It is easy for panic to set in as you consider your mounting monthly expenses and dwindling bank balance. This is when you must remind yourself that retrenchment is not always a negative. Eventually, it will work out. In a year's time you will look back at this experience and realise how much you have grown because of what you have pulled yourself through!



What you can expect to receive

1

You can expect to receive a **retrenchment package** – at least one week’s salary for each year of work completed in full.

2

You can expect to get **access to your retirement savings**. You need to decide what to do with your retirement savings. Don’t let HR rush you into deciding. You don’t have to fill in your withdrawal form by the time you leave the company. You can keep your retirement fund savings invested in the fund for as long as you like. Take time to figure it out. As far as possible try to save as much of your retirement savings as you can. You need to take responsibility for your own situation, but you can get advice from a financial adviser.

3

You can expect to get a **UIF payment** if you are registered for unemployment insurance and you have not been re-employed. It can take eight weeks or more for your first UIF payment to be paid out. As soon as you get your retrenchment paperwork from the HR department go to the Department of Labour to apply for your UIF.

How will your retrenchment package be taxed?

If you have not previously received a cash benefit due to retrenchment or taken a cash benefit from a retirement fund, you don’t pay any tax on the first R500 000 of the retrenchment package. Your retrenchment package will use up your R500 000 tax-free allowance, which means this will not be available again at retirement. You have no choice – you have to take your retrenchment package in cash, but you can choose how much of your retirement savings you want to take in cash – if any.

When you retire, you don’t pay tax on the first **R500 000** you withdraw in cash.

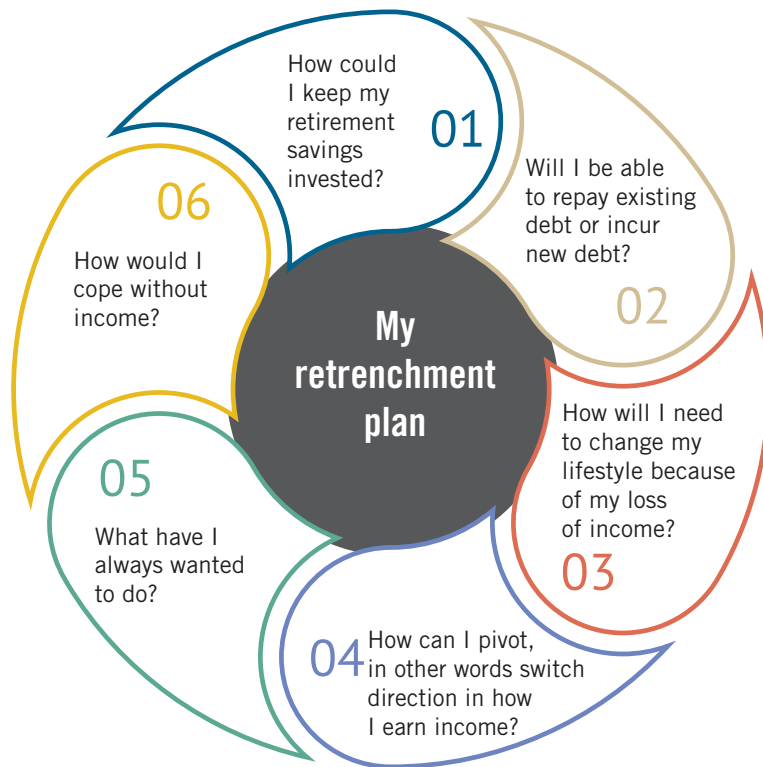
But did you know that all previous withdrawals are subtracted from this R500 000 tax-free amount? Any tax-free amount you receive when you are retrenched also affects the tax-free allowance of R500 000 at retirement.

Let’s say you withdraw R360 000 in cash when you change jobs before retirement to settle debt. When you do retire, you’re allowed R500 000 tax free. But because of your previous withdrawal of R360 000, the tax-free R500 000 now reduces to R140 000 (R500 000 less R360 000).

So to sum it up – withdrawing cash from your retirement fund savings when you change or lose jobs isn’t a good idea... avoid it if you can. Otherwise, you won’t be able to get the pension income you expect in retirement.



**Plan your finances for the next few months**



Use a budget planner to track your income and expenses and see where you can adjust your cost of living.

| Current monthly income | Rand | Monthly income when retrenched            | Rand |
|------------------------|------|---|------|
| Salary                 |      | Retrenchment package and part-time income |      |
| Savings                |      | Savings                                   |      |
| Investments            |      | Investments                               |      |

| Current monthly expenses              | Rand | Monthly expenses when retrenched      | Rand |
|---------------------------------------|------|---------------------------------------|------|
| <b>Financial</b>                      |      | <b>Financial</b>                      |      |
| Personal loans or credit cards        |      | Personal loans or credit cards        |      |
| Bank fees                             |      | Bank fees                             |      |
| Savings                               |      | Savings                               |      |
| Contributions to company pension fund |      | Contributions to company pension fund |      |
| <b>Healthcare</b>                     |      | <b>Healthcare</b>                     |      |
| Medical aid and gap cover             |      | Medical aid and gap cover             |      |
| Medication                            |      | Medication                            |      |
| Doctor's bills                        |      | Doctor's bills                        |      |
| <b>Taxes</b>                          |      | <b>Taxes</b>                          |      |
| Income tax                            |      | Income tax                            |      |
| Capital gains tax                     |      | Capital gains tax                     |      |
| <b>Personal insurance</b>             |      | <b>Personal insurance</b>             |      |
| Life, disability and funeral cover    |      | Life, disability and funeral cover    |      |
| <b>Housing</b>                        |      | <b>Housing</b>                        |      |
| Home loan or rent                     |      | Home loan or rent                     |      |
| Insurance                             |      | Insurance                             |      |
| <b>Education</b>                      |      | <b>Education</b>                      |      |
| School or university                  |      | School or university                  |      |

| Current monthly expenses   | Rand | Monthly expenses when retrenched | Rand |
|----------------------------|------|----------------------------------|------|
| <b>Utilities</b>           |      | <b>Utilities</b>                 |      |
| Water, electricity and gas |      | Water, electricity and gas       |      |
| Phone(s), internet and TV  |      | Phone(s), internet and TV        |      |
| <b>Transport</b>           |      | <b>Transport</b>                 |      |
| Car finance                |      | Car finance                      |      |
| Insurance                  |      | Insurance                        |      |
| Fuel                       |      | Fuel                             |      |
| Public transport           |      | Public transport                 |      |
| <b>Groceries</b>           |      | <b>Groceries</b>                 |      |
| Food, toiletries           |      | Food, toiletries                 |      |
| <b>Entertainment</b>       |      | <b>Entertainment</b>             |      |
| Going out                  |      | Going out                        |      |
| Travel or vacation         |      | Travel or vacation               |      |
| Hobbies or sport           |      | Hobbies or sport                 |      |
| <b>Personal care</b>       |      | <b>Personal care</b>             |      |
| Clothing                   |      | Clothing                         |      |
| Hair                       |      | Hair                             |      |

**Avoid making these financial mistakes**

**Mistake 1**

**You don't have to use your retrenchment package or retirement savings to pay off your home loan all at once**

If you were still working full time, you wouldn't pay off your home loan all at once if it would severely restrict your cash flow. Cash flow is key when you get retrenched – making your money last is especially important.

**Mistake 2**

**Don't settle for all-or-nothing thinking**

Find out what options and flexibility you have which you can apply in your budget to continue to meet the needs you have. For example, instead of cancelling your medical aid completely, you could both continue being a member and downgrade to a plan that costs less.

**Mistake 3**

**Don't be tempted to take on more debt to make up the shortfall**

Don't use your retirement savings to set up a business in a field you have no experience in ... a business loan may be a better option than using your retirement savings. You need to be careful of getting yourself into an even worse financial position.

A financial adviser can also guide you as you consider your future career options as they can look at the financial pros and cons.

**The final word**

Now that you have your budget, it's time to re-create your future. Take it one step at a time and celebrate the small achievements just as much as you would the big ones. Like coal forming diamonds under intense pressure, you too will come out of this better than when you went in.