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by Sanlam

10 TIPS TO (FINANCIALLY) SURVIVE RETRENCHMENT

It's arguably one of the worst moments in anybody's life. Retrenchment is unpleasant, regardless of how much your employer tries to support you or minimise the emotional blow.

In tough economic times, it is widespread business practice. Thousands of loyal, committed people with decades of work experience have been through this weighty process. Many have been resilient and emerged stronger. Getting to grips with your new financial reality can be daunting, but examining your options, especially regarding your retirement savings and investments, is a critical step to financial confidence. **Sherwin Govender, Business Development Manager at Glacier**, offers some tips to help you (financially) survive this stressful time.

Tip #1: Don't take it personally

It's easy to take retrenchment personally. You're a loyal human who dedicated much of your time and energy to your job. The reality is that it's not your fault. You didn't do anything wrong. Your company probably came to a point where they needed to make a financial decision for its future existence. Retrenchment is the least favourable practice and last line of defence in business, but often is unavoidable. The sooner you come to terms with this, the sooner you can move on to the new possibilities that await you.

Tip #2: Overhaul your CV and get it out there

This may seem obvious, but looking for a new job takes time, and in many instances, you may not even make shortlists. Ask the HR specialist handling your retrenchment about the possibility of redeployment. Often in big organisations, there may be opportunities in other divisions. Be open to the possibility that you may need to take a pay-cut in a new role.

Don't be disheartened when you're not getting any call-backs for jobs you have applied for. Review your CV and tailor it to jobs on offer, highlighting the skills and experience that you have that fit the job spec but this doesn't mean being dishonest about your skills or experience. Also, falsification of your qualifications is a criminal offence.

Tip #3: Reinvent yourself and your career, but…

…within reason. If you are thinking of starting a new business venture, be realistic about the projects and business ideas that you get tempted into. A new business – or even buying an existing one that looks profitable on paper – can drain you financially. Develop a coherent business plan and get a reputable business consultancy or your business banker to vet the details. Now is not the time to take uncalculated risks.

Tip #4: Cut your household budget

Bills will continue to reach you, while the salary that you have been receiving monthly, won't. Now is the time to go through your monthly household budget with a fine-tooth comb. You need to be strict and clinical about the expenses that are unavoidable (e.g. your bond repayment or kids' school fees) and those that are luxuries and can be suspended until you are have a regular income again.

Tip #5: Appoint a financial adviser

This truly is the best time to get a financial adviser. There are some big, important financial decisions to be made, and a qualified financial adviser can help you make them with confidence. For example, if you have been working for the same company for a number of years, you probably have built up a sizeable pension fund. There are some investment decisions that you need to make about the future of this money. You don't want to make any mistakes! Getting advice from a financial adviser experienced in retrenchments becomes invaluable. Also, if you have medical aid through your company, you need to decide what do when this benefit comes to an end.

Tip #6: Stay away from your existing retirement savings

Cashing in 100% of your pension fund can be the most financially damaging decision you can make. Your retirement savings is your money for the future. It may be tempting to cash it all in and treat your pension fund like you've just won the Lotto, but don't forget why you have this money saved up in the first place. If you cash in the entire pot, you're robbing yourself at age 60 – it's that simple. Before you cash in even a portion of the fund, find out how much tax you'll have to pay on that money (see our example). That should be reason enough for you to keep your pension fund invested.

Tip #7: Transfer your pension fund into a preservation fund*

As the name suggests, preservation funds protect your pension money. You can withdraw it later but the longer it stays there, the better. Together with your financial planner, you can decide how the money is invested. See our example for the financial benefits of transferring into (and keeping your money invested in) a preservation fund.

Tip #8: Calculate how you will live until you start earning again

As mentioned earlier, cashing in your pension fund is not a good idea. If you are worried about covering your living expenses, find out the following, before you touch your retirement savings:

- What retrenchment or severance package is your company offering you? Your employment contract should include this information.
- How long will the retrenchment package last? Take into account your monthly living expenses, and where you can cut unnecessary spending.
- What other savings or investments do you have access to? It's not ideal to dip into any investments, but in emergencies your savings (other than your pension fund) can tide you over until you start earning again.

Tip #9: Check if you have retrenchment cover

Check the cover on your credit card or retail store accounts. Perhaps there is built-in retrenchment cover you didn't know about, that is included in your service fees. If you have a policy that covers retrenchment specifically, good for you. It could help ease your financial burden.

Tip #10: Speak up

Don't be embarrassed to ask for better interest rates, reduced instalments on your accounts or even payment holidays. Whatever you do, don't ignore your debt obligations. If you are struggling to keep up your debt payments, a conversation with the credit manager at your bank or a debt counsellor will go a long way in preventing judgements and blacklisting. Remember, your credit record is taken into account when you apply for a job, so you want to keep that as clean as possible.

The story of James and Thando

In the table below**, Sherwin illustrates the different decisions (and their later consequences) made by two people who are both retrenched at the same time and who are both aged 45. We've assumed that each has built up retirement savings of R1.5 million at the time of retrenchment.

	James	Thando
Age at retrenchment	**45 years**	**45 years**
Pension fund value	R1.5 million	R1.5 million
Amount cashed out	R1.5 million	R100 000
Tax paid on cash-out	R292 500	R0
Amount transferred to preservation fund	R0	R1.4 million
Age when contribution to new pension fund starts	**46 years**	**46 years**
Monthly contribution to a new pension fund	R2000	R2000
Growth rate	10% p.a	10% p.a
Age at retirement	**60 years**	**60 years**
Total retirement savings	R728 000	R6.3 million
Tax-free lump sum that can be cashed out	0	R400 000

*Speak to a financial adviser about Glacier's Preservation Funds that give you access to a wide range of well-researched and well-known underlying investment options.

**This is for illustration purposes only. Personal financial circumstances have to be taken into account in order to make informed decisions, and for this reason appointing a financial adviser is essential.

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