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Financial stress brought about by losing a job can take its toll if not properly managed. /123RF

Be proactive if you are retrenched in these tough times

Cut luxuries, draw up budget

By **Laura du Preez**

The coronavirus lockdown will affect many businesses and as they count the economic costs of the pandemic, many will start to cut back on staff.

If you are retrenched in these tough economic times, you will need to be very focused and positive in order to put your best foot forward and seek out new opportunities.

You will need to deal with your finance pro-actively and make wise decisions on a range of issues.

Cut your expenses

Bills will continue, while the salary that you have been receiving monthly, won't, Sherwin Govender, business development manager at Glacier by Sanlam, says.

You need to go through your monthly household budget with a fine tooth comb and identify the expenses that are unavoidable such as your bond repayment or children's school fees, and those that are luxuries and can be suspended until you have a regular income again, he says.

Govender says you should pause any luxury and non-essential purchases. You may be surprised by how far you can get on a shoestring budget if you adjust your expectations, plan well and shop smartly.

Other than groceries, look at what subscriptions can be cancelled and consider what you can do yourself instead of paying for services, such as laundry and car washes, he says.

Check if you have cover

Check if you have retrenchment cover on your credit card, retail store accounts, car finance or home loan, Govender and Alfred Ramosedi, chief executive officer at Bayport Financial Services, say.

This cover doesn't pay off your debt, but keeps up with your repayments for up to a year.

Ramosedi says you will only be able to claim this benefit if you are up to date with your repayments, so speak to your credit providers immediately before you default on a payment.

Also check your life assurance policies for premium waivers that apply if you are retrenched, giving relief from premiums but allowing you to keep necessary cover.

Some income protection policies may pay up to 75% of your taxable salary for up to six months after retrenchment, Ramosedi says.

Keep essential cover in place

Try not to let your medical scheme and life cover lapse.

You can keep your membership of an open medical scheme or join an open scheme if you were on a restricted scheme. Some restricted schemes allow retrenched employees to stay on until they find new employment.

Consider downgrading to a cheaper option while you are unemployed. Most schemes will allow you to downgrade,

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or motivate for a downgrade, if the reason for doing so is a loss of income.

If you can't keep up the repayments, try not to stop paying for more than three months as you could face a three to 12-month waiting period on any existing condition.

Late-joiner penalties are for life and most medical schemes are not sympathetic to the fact that you gave up your membership due to loss of income.

Claim UIF benefits

As long as you and your employer have been contributing towards UIF while you were working, and you have a termination letter from the company, you will be entitled to claim unemployment benefits from the UIF after you are retrenched, Ramosedi says.

You must claim within 12 months of being retrenched and the benefits depend on your salary and how long you have been working. If you have been contributing for four years, you can claim for up to a year.

The benefit for the first 238 days of unemployment is between 38% and 60% of your salary up to a salary of R17,712 a month – benefits for higher earners are based on this maximum salary amount. From 239 to 365 days the benefit is a flat rate of 20% of your income up to a maximum of R17,712.

How much you need to live

Use your pared down budget to work out how much you need to live on until you are earning again.

Govender says when working this out, you must know:

- What retrenchment or severance package your company is offering you.
- How long your retrenchment package will provide for your monthly living expenses.
- What other savings or investments do you have access to.

Preserve your pension fund

Cashing in 100% of your pension fund can be the most financially damaging decision you can make, Govender says.

"Your retirement savings is your money, but not today. It may be tempting to cash it in and treat your fund like you've just won the Lotto, but don't forget why you have this money saved up in the first place."

Govender says before you cash in even a portion of the fund, find out how much tax you'll have to pay on that money (see James and Thando's cases below) because it may make you change your mind.

You can avoid paying any tax by leaving your savings in your employers' fund until you find a new employer and can transfer it to that fund.

Or you can transfer it to an RA or preservation fund and pay no tax. In a preservation fund, you get one withdrawal later, but the longer it stays there the better, Govender says.

Speak up

"One of the biggest mistakes that people make following retrenchment or a change in circumstances is to fall into arrears with payments before making arrangements with creditors," Ramosedi says.

Ramosedi says you should call your creditors and other service providers immediately, especially those which run debit orders off your account, and notify them of your change of circumstances. Ask them what payment arrangements can be made.

Retirement savings decisions on retrenchment can affect you for years to come

In the table below, Sherwin Govender, business development manager at Glacier by Sanlam, illustrates how different decisions have very different consequences for two people who are both retrenched at age 45 with pension savings of R1.5 million.

	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	R2,000	R2,000
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	R0	R400,000

Source: Sanlam

How to deal with job loss

Tactics to keep you moving ahead

Sorting out your finances after you have been retrenched does involve many decisions around numbers. But there are also some things you must do beyond the numbers.

The experts have this advice:

Hire some help

This truly is the best time to get a financial planner, Sherwin Govender, business development manager at Glacier by Sanlam, says: "There are some big, important financial decisions to be made, and a qualified financial planner can help you make them with confidence.

"For example, if you have been working for the same company for a number of years, you have probably built up a sizable pension fund. There are some investment decisions you need to make about the future of this money.

"Getting advice from a financial planner experienced in retrenchments becomes invaluable."

Inform your family

While the retrenchment process is under way, you will find yourself having a series of difficult conversations, and one of the hardest would be with your family, says Colleen Taljaard, HR manager at Glacier by Sanlam.

"You may experience feelings of failure, or that you have let them down, but remember being retrenched is not your fault. Your family will be supportive."

Also make use of any free employee assistance programme your employer has, she says.

Invest in yourself

Taljaard says although retrenchment is painful, it's important to keep moving forward.

She suggests you overhaul your CV., and try not to be disheartened if you don't get called back.

Ask the HR specialist handling your retrenchment matter about the possibility of redeployment within your company. Be open to the possibility you may need to take a pay cut in a new role, Govender adds.

He says consider reinventing yourself and your career.

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 a business banker, to vet the details, says Govender.

Taljaard suggests that you need to sharpen your current skills, or learn new ones. Short online courses offered in your field are something to consider, she says.

She says while you look for something permanent, create your own freelance or temporary work. – Laura du Preez