Your retirement fund is not an ATM

By Sherwin Govender, Business Development Manager

In these current market conditions, if you have a job, hold on to it. This is logical. However, there is a new trend on the rise – financially desperate people resigning from their jobs without new ones lined up, just so they can access the money saved in their pension funds. We weigh in on this scary development and examine its related financial dilemmas.

The size of the unemployment problem

It seems logical, especially in light of the current unemployment statistics – if you have a job, try not to lose it. According to Stats SA, the unemployment rate was around 29.1% in the third quarter of 2019. Some argue that it's closer to 36%, which equates to around 10 million working-age South Africans.

With so much turmoil globally, and local economic challenges that simply don't seem to be improving, many companies across industries, are either shrinking their employee numbers or closing completely. Either way, thousands of jobs are being lost. The increase in retrenchments is a stark reminder that jobs are scarce and finding a new one will not be easy if you lose the one you have.

Steer clear of your retirement fund

When you resign from your job, you are allowed to cash out the total of the savings accumulated in your employer's pension fund, but you will pay a hefty sum in taxes. The tax laws around cashing out your pension fund are in place to dissuade you from doing so, and with good reason.

You may be financially desperate, but here is a summary of why you need to stay put in the job you have, and step away from your pension fund:

1. Don't play Russian Roulette with your financial future. Resigning from your job purely to access your pension comes with huge risks and costs. There is way too much uncertainty in the job market, so don't be confident about getting hired elsewhere soon. Also, consider what resigning could mean for you and your family if you are a breadwinner.
2. Don't rob your retired self. Retirement savings is your money, but it belongs to you when you

retire. Spending it now could mean that you won't have enough saved to live on when you retire. Not having enough retirement savings means you will need to find income-generating employment after you retire. If jobs are scarce now, what will the job market look like when you're 60?

3. Cashing out your pension fund is taxing, literally. You can only cash out your pension fund if you withdraw from the pension fund i.e. when you resign. Resigning and retiring are two completely different scenarios.
    - If you retire, you can only cash out up to one-third, and the balance must be used to purchase an annuity.
    - If you withdraw, (when you find a new job and resign), you could typically transfer as much of your funds as possible to a preservation fund at a registered financial services provider. Other options would be transferring to a retirement annuity or the new employer pension fund. However, you can cash out the full amount, but the tax you pay on the cash lump sum would be more than if you retired from the fund. The tax payable when cashing out your pension fund is calculated as follows:
        - the first R25 000 is not taxed;
        - the balance up to R660 000 is taxed at 18% of the amount over R25 000;
        - the balance up to R990 000 is taxed at R114 300 + 27% of the amount over R660 000; and
        - the remainder is taxed at R203 400 + 36% of the amount over R990 000.

4. Consider all the money you will be losing in compound interest. You are giving up a lot of the "magic" of compound interest, especially if you cash out 100% of your pension fund now. In the table below is an example of the financial outcomes of two people, Chris and Thandi, who both have resigned and withdrew money from their pension funds

	Chris	Thandi
Age at resignation	45 years	45 years
Employer pension fund value	R1.5 million	R1.5 million
Amount cashed out	R1.5 million	R20 000
Tax paid on cash-out	R387 000	R0
Amount transferred to preservation fund	R0	R1 480 000
Age when contribution to the new employer pension fund starts	46 years	46 years
Monthly contribution to a new employer pension fund	R2000	R2000
Growth rate	10% p.a.	10% p.a.
Age at retirement	60 years	60 years
Total retirement savings	R728 000	R 6.7 million

Tax-free lump sum that can be cashed out at retirement	R0	R480 000

5. If you need the money to pay your debts, consider other options first. Investigate debt counselling or consolidation before dipping into any of your savings or investments. A debt management programme will help you create a debt repayment plan that gets you back onto a healthy financial path.
6. Look at your big financial picture with a qualified friend. It’s human nature to make financial decisions that seem good now but turn out to be regrettable in future. Seek financial advice from an accredited financial adviser to guide you through difficult financial times.

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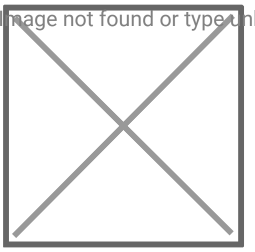

Sherwin Govender

Sherwin has been a business development manager at Glacier since 2016, when he relocated to Cape Town from Kwa-Zulu Natal, where he had joined Glacier in 2011. He is responsible for developing and maintaining an investment intermediary portfolio of Sanlam tied agents and independent planners. This involves growing relationships with intermediaries through his support with technical expertise and planning. His career in financial services spans over 15 years, having fulfilled roles at Old Mutual Wealth, Nedbank Financial Planning and Alexander Forbes. Sherwin holds the following qualifications:

- Bachelor of Business Science in Finance and Economics, University of Kwa-Zulu Natal, 2004
- Postgraduate Diploma in Financial Planning, University of Free State, 2007
- Senior Management Development Programme, University of Stellenbosch, 2015
- MBA, University of Stellenbosch, 2021
- He is a Certified Financial Planner®

Glacier Financial Solutions (Pty) Ltd.

A member of the Sanlam Group
Private Bag X5 | Tyger Valley 7536 | Email client.services@glacier.co.za | Tel +27 21 917 9002 / 0860 452 364 | Fax +27 21 947 9210 | Web www.glacier.co.za | Reg No 1999/025360/07
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Private Bag X8 | Tyger Valley 7536 | Tel +27 21 950 2600 | Fax +27 21 950 2126 | Web www.smmi.com *|*Reg No 2002/030939/07
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Glacier International is a division of Sanlam Life Insurance Limited
Sanlam Life Insurance Ltd. | Email life@sanlam.co.za | Tel + 27 21 916 5000 / 0860 726 526 | Fax +27 21 947 9440
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