

# Five mistakes to avoid if you're being retrenched

Coming to terms with getting retrenched will never be easy. And as thousands of people are being retrenched this year across companies and industries, it is fast becoming a reality in many households in South Africa.

Once you've recovered from the initial shock of being informed of the retrenchment, there are some key details that will have profound financial implications and that you cannot afford to overlook as you undergo one of the toughest processes in your working career. Sherwin Govender, business development manager at Glacier by Sanlam, unpacks some of the most common mistakes made by people facing retrenchment.

**Mistake #1: You think a severance benefit and retrenchment benefit are the same thing**

A severance benefit is the amount of money that you will receive as a result of the retrenchment process. In terms of the Basic Conditions of Employment, it is equivalent to one week's remuneration for every full year worked at your current employer. This severance can also be paid to a person who is being offered early retirement (55 years and older), or who is unable to work as a result of incapacity (e.g. in the case of terminal illness).

A retrenchment benefit refers to the benefits in your company retirement fund that you will have to decide what to do with, due to your retrenchment. It is most commonly the same benefit that you would receive from the fund if you resigned.

**Mistake #2: You think your accrued leave and notice pay will have tax breaks in retrenchment**

If your employment contract states that your notice period is one month (you or your employer have the right to terminate your contract after notice of one month), then your notice pay will be one month's salary. If your notice period is two weeks, then your notice pay will be two weeks' salary. At the discretion of the employer, your notice pay could be more than what is stated in the contractual agreement.

Your accrued leave refers to all leave days that you have not taken as leave. The monetary value of those leave days will be paid to you if you choose not to take the time off as leave during the notice period.

Both the notice pay and the accrued leave are due to you based on your employment. That means that the amounts would be payable whether you resigned or were retrenched. These amounts are taxed according to your marginal tax tables, as they form part of your normal remuneration and do not form part of the severance pay.

Mistake #3: You can access your retirement annuity when you are retrenched

Your retirement annuity (RA) is an investment towards your retirement that you make in your personal capacity. It does not form part of the retirement fund that you have with your employer. Therefore, you cannot access your RA when you are retrenched by your employer. Your retirement fund and retirement annuity are completely separate investments, meaning you will only have access to your RA after the age of 55.

Mistake #4: You overlook the tax implications of various retrenchment scenarios

1. *The scenario where you want to access the R500 000 tax-free portion of your retirement fund lump sum*

Tax law in South Africa allows for a “universal” amount of R500 000 tax-free access to retirement lump sums. You are granted a concession at retrenchment allowing the severance and retrenchment benefits to be included in this tax-free amount. It is important to note that the R500 000 is a once-off concession over the lifetime of your retirement lump sums. It is only allowed when you are retrenched or when you retire.

That means that in a new company in future, if you are retrenched again or you retire, the concession will not apply if your severance benefit lump sum was R500 000 or more during the first retrenchment. If your severance benefit lump sum was, say R200 000, then it means that you have a tax-free concession on a lump sum benefit of up to R300 000 on a subsequent retrenchment or at retirement.

It is important to note that these tax concessions are specific to a retrenchment. If your exit is processed as a resignation, then you will not receive the tax concession and you will be taxed on the much more stringent withdrawal tax tables. Whether it is voluntary retrenchment, (where you opt in to the initial rounds of the retrenchment process), or involuntary, (when there is no option), you should ensure that your exit is processed as a retrenchment and not a resignation.

2. *The scenario where you opt for voluntary retrenchment*

You need to be aware that retrenchment, technically, is not voluntary. Voluntary retrenchment is

when you choose to resign ahead of the retrenchment process. To expedite or ease the retrenchment process, your company could offer additional benefits if you resign. Resignation affects your benefits and the consequent tax that you will have to pay.

#### Mistake #5: You go it alone

This possibly could be the worst mistake you make, says Sherwin. Many people are given their retrenchment notices and decide to handle all of the financial aspects (and the emotional ones) on their own.

For emotional support, talk to a trusted family member, a counsellor, psychologist or a spiritual adviser. For guidance on your finances, insurance and investments, enlist the help of a qualified financial planner or investment professional who has knowledge of the subtle nuances of the retrenchment offer, your employer's obligations throughout the process and the tax implications that literally could save you tens of thousands of rands. Sherwin also encourages clients to hold on to the adage, 'this too shall pass.'

Glacier Financial Solutions (Pty) Ltd and Sanlam Life Insurance Ltd are licensed financial services providers

**This document is intended for use by clients, alongside their financial intermediaries.** The information in this document is provided for information purposes only and should not be construed as the rendering of advice to clients. Although we have taken reasonable steps to ensure the accuracy of the information, neither Sanlam nor any of its subsidiaries accept any liability whatsoever for any direct, indirect or consequential loss arising from the use of, or reliance in any manner on the information provided in this document. For professional advice, please speak to your financial intermediary.

Glacier Financial Solutions (Pty) Ltd.

A member of the Sanlam Group

Private Bag X5 | Tyger Valley 7536 | Email [client.services@glacier.co.za](mailto:client.services@glacier.co.za) | Tel +27 21 917 9002 / 0860 452 364 | Fax +27 21 947 9210 | Web [www.glacier.co.za](http://www.glacier.co.za) | Reg No 1999/025360/07

Licensed Financial Services Provider | Glacier Financial Solutions (Pty) Ltd. is also a Licensed Discretionary Financial Services Provider FSP 770, trading as Glacier Invest | Sanlam Multi-Manager International (Pty) Ltd. | A member of the Sanlam Group

Private Bag X8 | Tyger Valley 7536 | Tel +27 21 950 2600 | Fax +27 21 950 2126 | Web [www.smmi.com](http://www.smmi.com) |\*Reg No 2002/030939/07  
Licensed Discretionary Financial Services Provider, acting as Juristic Representative under the Glacier Financial Solutions FSP 770

Glacier International is a division of Sanlam Life Insurance Limited

Sanlam Life Insurance Ltd. | Email [life@sanlam.co.za](mailto:life@sanlam.co.za) | Tel + 27 21 916 5000 / 0860 726 526 | Fax +27 21 947 9440  
Reg No 1998/021121/06 | Licensed Financial Services Provider