

# Try not to cash in your pension before retirement

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**T**HOUSANDS of people in South Africa have already been retrenched this year because of tough economic conditions but financial experts say rushing to cash in on your retirement funds as soon as things go wrong is not a good idea.

Experts in the financial and insurance industries said consumers affected by retrenchments or other financial woes should first seek advice from a registered adviser before cashing in on their pensions.

Pieter Cronje, director at the Financial Intermediaries Association of South Africa (FIA) and chairman of its Employee Benefit Exco, said this is an extremely difficult time for those affected.

"It is essential, if possible, not to cash in retirement savings to meet short-term needs as this could significantly impact on people's ability to retire comfortably," said Cronje.

He said official employment statistics have revealed that retrenchments of workers in South Africa's private sector accelerated in



**SAVE: If you are retrenched, think carefully before you cash in your pension, financial advisers warn.**

the first quarter of this year.

As a result, thousands more employees are likely to cash in their retirement savings, putting their financial security at risk.

But Cronje said, apart from a real need in some circumstances, there is

also a huge temptation when one is retrenched to cash in the retirement savings built up with an employer to help pay for living costs and short-term luxuries.

"However, one of the biggest contributors to a comfortable

retirement is the effect of compound interest built up over time and cashing in now will significantly impact one's ability to do so.

"For example, someone starts work with a salary of R5 000 per month and contributes 7.5 percent to a retirement fund, which their employer matches. If we assume a 6 percent salary increase per annum over a 45-year career, without any withdrawals, the person will have retirement savings of about R5.5 million on retirement.

"If that same person took an early withdrawal of R550 000 after 20 years of service, their final retirement savings would almost halve to just R3m," said Cronje.

He said that with the possibility of more job losses on the way in a number of sectors, including the textile and banking industries, it is vital for all players in the industries to work together to ensure that those affected understand the importance of preservation and the significance of what cashing in savings now will mean for their future.

According to the Old Mutual Retirement Funds Survey 2010, of those surveyed who did cash in their savings, 53 percent cited a lack of advice at the time of withdrawal for doing so. A further 62 percent cited a lack of understanding of the

consequences of the decision.

Seelan Gobalsamy, managing director of Old Mutual Corporate, said that most employees who exited pension or provident funds administered by Old Mutual in 2009 cashed in their accumulated retirement benefits rather than transfer them to another retirement savings vehicle.

"Seventy percent of the funds' representatives surveyed cited a desire to access cash as the main reason. Another trend that emerged was that members were resigning in order to access their retirement credits and then re-applying for their jobs," said Gobalsamy.

Cronje said the figures released in the survey illustrate the importance for anyone who does find him or herself out of work to contact their financial adviser before making any decision.

"A qualified financial adviser is able to outline the preservation options available to their client and if necessary work out a new budget to accommodate their temporary reduction in income.

"Many people who cash in their retirement savings believe it is a short-term fix and that they will either transfer the cash to a new vehicle at a later date or top-up their savings as soon as they are again

employed. However, the reality is that this seldom happens and the money soon gets allocated for 'essential' purchases.

"South Africans already show a disinclination to save adequately for retirement, which, combined with a propensity to cash in retirement savings when leaving or changing jobs, suggests we could be heading for a huge problem when these people finally do retire," said Cronje.

Hugh Hacking, of Old Mutual Corporate said: "Before deciding to cash in your retirement savings, you should explore moving your money to a preservation fund. Preservation funds still allow you to withdraw all or part of your savings once at a later date before retirement. In this way, should you not be able to find new employment soon you will still be able to fall back on your retirement savings as a last resort, but if you do find new employment then your retirement savings will remain intact."

John Anderson, of Alexander Forbes Financial Services, said legislation is being proposed to make the preservation of retirement savings compulsory.

"Given the rate at which South Africans switch jobs and hence the number of times they get the opportunity to cash in their pension

payouts, few South Africans manage to maintain their standard of living into retirement.

"However, even once this legislation is introduced, there will still be many decisions that members will need to be helped to get right if they are to achieve their retirement objectives.

"For example, how much to save, how much to contribute towards other benefits, what investment strategy to adopt, what annuity to take at retirement etc."

Anderson said trustees, employers and management committees should provide education and guidance to help members make decisions that will ensure they maintain their standard of living after they retire.

"Since effective communication with fund members is key to educating members, there is an increasing realisation within the industry, member communication needs to be more targeted to ensure that members get the right advice – and take the right action where necessary.

"Employers and trustees should use targeted communications to try to influence the behaviour of members who appear to be making mistakes."

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