



The recent recession and slow economic downturn has made retrenchment a reality for thousands of South Africans. As an employee, it is important to know your rights. PICTURE: ENVER ESSOP

Beware short-term fix

OMESHNIE NAIDOO

WALMART'S takeover of Massmart is arguably the most talked-about acquisition in South Africa at the moment.

Massmart retrenched 503 employees in June last year, before the multimillion-rand deal was announced. Its fate still hangs in the balance.

However, the conglomerate is not the only company to have retrenched staff recently.

Employment statistics have revealed that retrenchments in South Africa's private sector accelerated in the first quarter of this year.

The recently published Labour Force Survey showed that while 42 000 jobs were added in total in the first quarter, compared with a year earlier, this came at the expense of the private sector which lost an estimated 90 000 jobs during the same period.

The result, sadly, is that thousands of people will cash in their retirement savings and put future financial security in jeopardy.

Pieter Cronje, director at the Financial Intermediaries Association of Southern

ECONOMY WATCH

Africa (FIA) and chairman of its employee benefits exco, says that while 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 because this could significantly affect your ability to retire comfortably.

"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

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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," Cronje says.

"For example, someone starts work with a salary of R5 000 a month and contributes 7.5 percent to a retirement fund, which their employer matches. If we assume a 6 percent salary increase a year, in 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."

Cronje says 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 industry 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.

"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," Cronje said.

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