

Private sector retrenchments highlights need for preservation

Official employment statistics have revealed that retrenchments of workers in South Africa's private sector accelerated in the first quarter of this year. As a result, thousands more employees are likely to cash in their retirement savings putting their future financial security in jeopardy.

The recently published Labour Force Survey for the first quarter of 2011 showed that while 42 000 jobs were added in total in the first quarter of the year 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.

Pieter Cronje, director at the Financial Intermediaries Association of Southern Africa (FIA) and chair 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 as this could significantly impact on people's 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 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% to a retirement fund, which their employer matches. If we assume a 6% salary increase per annum over a 45-year career, without any withdrawals the person will have retirement savings of about R5.5 million on re-

tirement. 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 R3 million."

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.

According to the Old Mutual Retirement Funds Survey

2010, of those surveyed who did cash in their savings, 53% cited a lack of advice at the time of withdrawal for doing so. 62% also cited a lack of understanding of the consequences of the decision.

Cronje says these figures 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."