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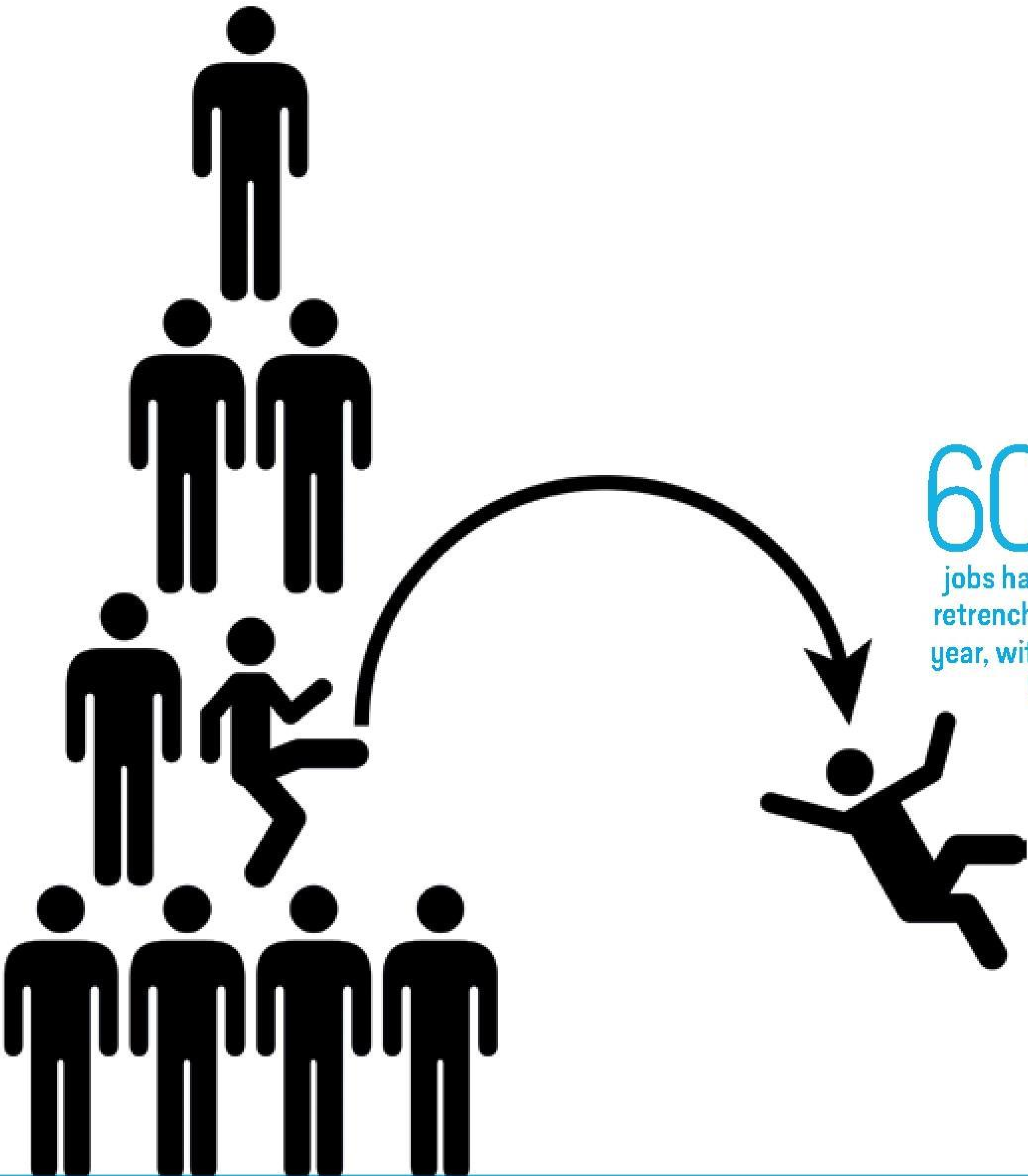
The reality of retrenchment

With an estimated 60 000 employees facing retrenchment over the past year, it would be wise to consider what you would do if you were to lose your job and how you could prepare for this before it happens.



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Nearly 60 000 jobs have been subject to retrenchment over the past year, with the mining sector hardest hit, according to research by trade union Solidarity. These numbers are based only on media reports and retrenchment notices since April 2015, and the actual number could be substantially higher, the union said.

Solidarity general secretary Gideon du Plessis warned that the current pattern and wave of retrenchments are "very similar to the situation at the end of 2008 and the beginning of 2009, which was the precursor to the recession". With more job cuts likely, how can you protect yourself against the financial implications of retrenchment?

The key is to start making a plan now, while you are still employed. Sonia du Plessis, a certified financial planner at Brenthurst Wealth Management, says the aim should be to have three to six

GETTING RETRENCHED?

THIS IS WHAT YOU SHOULD DO:

How should you finance your living expenses and pay off debt when you get retrenched?

In terms of the Basic Conditions of Employment Act, employees are legally entitled to the following payments in the event of compulsory retrenchment:

- Annual leave accrued but not yet taken;
- Contractual notice pay in the event that the employee is not required to work their notice period; and
- Severance pay. The minimum amount required by law is one week for every completed year of service.
- If the employee is contractually entitled to certain payments, for example a guaranteed 13th cheque, the employee is entitled to this payment or pro-rata thereof.
- Note that a severance package will be taxed, though the first R30 000 of the package will be tax free. This benefit can only be claimed once, so any subsequent retrenchment benefits will be fully taxed.

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Wouter Fourie of Ascor advises individuals to speak to a financial adviser before they make any decisions about their retrenchment packages: "It often makes sense to pay off your personal debts with your severance package, but I would suggest that you get sound financial advice before making that decision."

Citadel's Hesta van der Westhuizen agrees, saying an adviser will be able to help with restructuring your budget to see which expenses can be amended or dropped. The aim is to reduce living expenses as much as possible while looking for another job, and not to take on any more debt.

months' salary saved in the money market as a nest egg.

Even if there are no talks about retrenchment at your workplace, it's a good idea to save about 10% of your monthly salary towards this nest egg, she says. Once saving towards that goal is accomplished, the money can be channelled towards other things like reducing debt.

John Manyike, Old Mutual's head of financial education, says you should chat to a financial adviser to find the most suitable savings vehicle for your emergency fund. Options include a fixed deposit at a bank or a unit trust, and the right vehicle would depend on the individual's risk appetite and affordability measures.

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RETRENCHMENT INSURANCE

Financial service providers also offer retrenchment insurance, which could be an option.

The ideal is to self-fund a period of unemployment following retrenchment by using your emergency savings, but this is not a realistic option for everyone. "If one is already living from hand to mouth, then we can assume that this is probably not an option as savings and investment would be limited. So the answer then is to insure," says Hesta van der Westhuizen, advisory partner at Citadel.

However, retrenchment insurance can be expensive, and there is usually a six-month waiting period before payments will be made. Typically, the retrenched person is paid for six months, unless they are employed again within three months.

It is therefore important to read the fine print in the benefits before signing and to avoid duplicating insurance benefits, says Van der Westhuizen. Your home loan agreement can, for example, already include automatic retrenchment cover, so make sure you know what you are paying for. Some big corporates also include retrenchment cover in their employee benefits.

"Retrenchment cover is offered as additions or rider benefits in both long-term insurance policies and short-term policies. So one can add the benefit to, for example, your life policy," adds van der Westhuizen. Be cautious, however, of over-insuring yourself, says Manyike.

Wouter Fourie, certified financial planner and chief executive at Ascor Independent Wealth Managers, says even though it's difficult to plan specifically for retrenchment, it's always good to plan for the unforeseen.

"Special insurance products that pay out when you lose your job are usually very expensive and many of them have a waiting period, which means that it will not help you to take out a policy when you hear that you will be retrenched," says Fourie.

In terms of voluntary retrenchment, Manyike says most insurers would be cautious of insuring such a person, but he advises consumers to speak to a financial adviser to get the full details on whether the insurance underwriter would actually pay out in the case of voluntary retrenchment. ■

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"An adviser will also be able to help with preserving your retirement fund credit – or if you really need to take some of that money with the options available (depending on your age) and the most appropriate level of withdrawal with regard to the tax payable on the amount," says Van der Westhuizen.

It is also important to inform all your creditors of the fact that you've been retrenched, says Fourie. "Creditors and banks are usually much more lenient when they know about your situation beforehand than when they only learn about your situation when you do not have the money to pay them back."

For highly indebted individuals, debt review may be an option, but that should be a last resort, adds Van der Westhuizen. ■

What NOT to do when you get retrenched:

Do not cancel risk policies.
As tempting as it may be to cancel policies like life, disability, medical aid or car insurance to save cash, Citadel's Hesta van der Westhuizen advises that people speak to their financial adviser first to see if these policies can be restructured, for example by reducing the cover or cutting some benefits, in return for lower premiums.

Do not cash in your retirement fund and buy something (like a new car) to make you feel better.
"It is usually very tempting to take all the money in the pension or provident fund," says Van der Westhuizen. But keep in mind that you will have to pay tax on this. "And once that money, which you might have been saving for years, is gone, it is gone. In order to 'make it up' again, you would need to also save for the loss in compound interest you would've earned on your retirement savings."

Do not expect to be paid unemployment insurance (UIF) immediately.
All the experts say it may take a couple of months for the department of labour to process your documents. Do not bargain on this money to tide you over – the best is to have an emergency fund available to cover you during those first few months. ■