

Make your retirement savings recession-proof

Michelle Human: Liberty Group Advisory Services

Legislative changes allow for a greater tax break for retrenchments, but beware of using this to raid your retirement savings

Many people were affected by retrenchments because of the recent economic crisis. In fact, an estimated 870 000 jobs were lost in 2009. To put that in perspective, that's almost 3 500 people for every working day of the year. For this reason, laws have changed to allow people to withdraw a portion of their retirement fund, tax-free, when they are retrenched.

Tax-free withdrawal on retrenchment

You can now withdraw up to R300 000 from your retirement fund, tax-free, when you are retrenched – as long as:

- You have been the victim of a compulsory retrenchment. Voluntary retrenchments will not qualify.
- The business has either closed down or there is a general reduction of personnel of a certain class.
- You are not a director of the company, or an employee with more than 5% shares in the business.

If you resign, you can only take R22 500 as a tax-free withdrawal.

But **don't think of this as an incentive to withdraw**. It is just an emergency measure to pay the bills and put food on the table until you are able to find work again.

Impact of withdrawals on retirement savings

Remember that any withdrawal that you take before retirement, either taxed or tax-free, will reduce the tax-free portion that you could have qualified for on retirement. You will also lose out on the growth that your money could have earned and, most importantly, the power of compound interest – allowing your money to earn interest on interest!

So what are your options if you have been retrenched?

- **Preserve:** If you can afford to, your best option would be to preserve your benefits to provide for your retirement one day. You can do this by either transferring the funds (tax-free) to a preservation fund or to a retirement annuity.
It is important to speak to your financial adviser before choosing a retirement savings vehicle, as each has its own merits. For example, you can access the funds in a preservation fund once before your retirement, but you can't do so if you transfer to a retirement annuity. But using this one withdrawal from the preservation fund will have tax consequences.

- **Survive:** The second option is that you need to use the funds to survive financially. If you withdraw more than R300 000, you will pay tax. If you do not need to use all your funds then you will be able to transfer the balance to a retirement annuity, tax free.

“Liberty Group is an Authorised Financial services Provider in terms of the FAIS Act (Licence no. 2409). The information contained in this communication, including attachments, is not to be construed as advice in terms of the Financial Advisory and Intermediary Services Act of 2002 ("FAIS") as the writer is neither an appointed representative of Liberty, nor a licensed financial services provider as contemplated in FAIS. Please consult your financial adviser should you require advice of a financial nature and/or intermediary services.”