Facing retrenchment with champagne and oysters

Money Matters

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Well-known scenario planner Dr Clem Sunter uses an analogy of a fox and a hedgehog to describe the various role-players in the economy.

The hedgehog represents the corporate fat-cat versus a fox, who is the entrepreneur, the mover and shaker of the economy, the hopeful engine of economic growth in South Africa.

According to Sunter, one is not born a fox or a hedgehog, and the fact that one may have acted like a hedgehog for the past 20 years does not mean one cannot become a fox.

Not to make light of the topic, but according to Sunter a sure way of turning a hedgehog into a fox is to retrench him or her!

The "champagne and oysters" part of the headline this week hopes to inspire anyone facing retrenchment. There are opportunities out there; one simply needs to give it go and retrenchment might be the push that gets you going.

One of the financial decisions which the retrenched person must decide on, is what to do with his or her retirement fund. Do you take the cash, or preserve the savings? The answer to this question is easy: you preserve the benefits at all costs.

However, the temptation to take the cash is great and this is mostly a decision based on fear. How am I going to survive? I need to feed my family. I have debts to pay. The list goes on and on, and unfortunately I do not have the answers to these concerns, but I can assure you that you will find the answers and you will survive. Do not make an emotional decision which you will regret later.

The two most important reasons for preserving your retirement capital, is the tax payable should you withdraw the cash and the loss of compounding returns. If you withdraw the cash, you effectively lose those years of retirement savings and power of compound interest. The only way to make it up would be to work in those years, so do not expect to still retire at 60 or 65.

For those who believe they can invest the after-tax cash more efficiently, remember retirement funds have certain tax concessions, which other investments do not and that is that retirement funds are not liable for both income and capital gains tax. It is hard to compete with a tax-free return.

I recommend a vehicle specifically created for the preservation of retirement benefits, appropriately named a preservation fund. Preservation funds allow investors to still access their retirement funds should the need arise. So, rather than relying on retirement capital to fund your day-to-day expenses, take a chance on yourself and preserve your savings until you really have no other option. My bet is you will never need it! – *www.mwwealth.co.za*