

Manage your Money Matters

Getting by with your salary each month is a challenge for many people. When you get retrenched, your money matters just become so much more complex. This web page has a strong focus towards managing your money matters during retrenchment, but those of you who have concerns about living within your available salary each month, can also derive benefits from reading the tips provided.

In general, financial difficulties cause many negative feelings such as stress, anxiety, loss of control, helplessness and anger. In the case of retrenchment, you might even experience excitement about receiving a big sum of money, more than you ever had before.

When you have to make serious decisions about your financial situation, letting your emotions cloud your judgement could be dangerous. You need to remember that you must take strong control over your finances in this time, because your money might have to last you until you find another income again, which may not be soon.

You will find some basic pointers on your severance package in the case of retrenchment, as well as on budgeting, dealing with debt and saving. The advice is in no way intended to be professional advice. The best advice is to consult with a good financial adviser. You can also find advice on finding such a financial advisor here.

Your Severance Package

Discuss your severance package and its composition with the Human Resources Division at your employer. Usually your severance package pay will be made up of:

- The pay you get as compensation for being retrenched
- Notice period pay
- Leave pay
- A pro rata service bonus
- Pension fund contributions

Enquire how much the lump sum will be that you will receive on retrenchment and also how it will be made up. Severance pay should at least be one week's pay per completed year of work.

You can also negotiate with your employer to pay for financial advice, further training for another job, assistance in getting a job and also to receive employment counselling and other counselling if need be. Contact your trade union to do the negotiations on financial advice, further training and assistance with placement and employment counselling on your behalf.

You can consider whether you can continue to pay for your existing medical aid membership, life insurance and other policy fees yourself. In some cases you will have to cut down completely on your expenses and only continue with the most essential, if at all. Discuss different options of dealing with policies you took out with the insurance provider or financial adviser. Chances are that you may be able to get the funds back you put into the life insurance or policy, but that you will have to pay tax to SARS and a penalty to the Insurance provider. Other options are that you may be provided an opportunity to make lower payments for a while.

Paying tax

You will not walk away with the full amount of the lump sum. According to law you will have to pay taxes on your severance package. You will have to pay the following tax on your lump sum (provided it is the first lump sum you receive):

- The first R500 000 of your lump sum payment from your employer is tax free;
- If you receive R500 001-R700 000, you will pay 18% of the lump sum;
- If you receive R700 001-R1 050 000 you will pay 27% of the lump sum;
- If you receive R1 050 001 and above you will pay 36% of the lump sum.

Your tax payment on your lump sum will be arranged by you employer. There are some ways of reducing the tax you pay on your lump sum. Get professional financial advice from a registered financial advisor on this before your retrenchment package is finalised-see below how you can contact them.

Print out the Financial Position Table below, or draw a similar one on a piece of paper. Complete all your possible sources of income that you can possibly draw from in this time as discussed with the financial organisations and your financial adviser. Then fill in the amounts available opposite to them. Under your expenses, you can complete items that are non-negotiable expense items on your salary slip that you consider to continue paying and what their cost would be:

Financial Position example

| Income source | Total Amount | Possible continued expense on current salary slip | Amount |
|-----------------------------------------------------|--------------|---------------------------------------------------|--------|
| Total Severance Pay minus tax | | Medical aid contributions continued by myself | |
| Life Insurance policy pay-out minus tax and penalty | | | |
| Salary protector policy pay-out | | | |
| Retirement annuity pay-out minus tax | | | |
| 32 Day Savings account balance | | | |
| 90 Day savings account balance | | | |
| | | | |
| Total: | | Total: | |

The above Financial Position Table will give you an idea on what finances you have at your disposal and which financial source you would need to activate, which to save or invest and which payments you would like to continue, or would have to relinquish. The Financial Position table is also a nice aid to take to your financial adviser when you discuss your financial future.

Should I spend the money?

Whatever you do and however big the temptation might be to spend some of your retrenchment money on whatever you have always dreamt of owning or doing, resist it with all your might! Do not spend any of your money, since you will have to survive on the money until you find another job, which might be extremely hard to come by.

Maintain your cash flow

Unfortunately the bills do not stop when you are retrenched. If you have never done a monthly budget before, then now is the time to start. This will show you how much money you need monthly to pay your bills and still put food on the table.

By knowing how much you need every month, you can calculate how long your retrenchment package will last. For example, if your retrenchment package is R50 000 and you need R10 000 per month to sustain your lifestyle, your retrenchment package will provide you with an income for five months.

Have your retrenchment package paid into a separate account such as a money market account. Pay yourself monthly by transferring the amount you need for the month as calculated by your **budget into your normal account**, thereby establishing a temporary pay office. This will ensure that you do not spend more than what is necessary, as you might think “but I have the money”. Your retrenchment money will go faster than you think. Also remember that your lump sum includes your pension contributions and that you will need money to live on until you are around 85 years of age or even older. The bottom line is that you must start looking for another job and income immediately, even if you have to do temporary work from your house until you get something better-there are numerous ways in which you can generate additional income. Think of investing at least your pension contributions for in case you do not find work again.

- **Assets and debts**

The table below will help you generate further cash flow apart from your severance package and savings. You might be having assets, or belongings, that you can sell easily to obtain cash without devaluing your financial position. This is known as liquefying your assets. Print out or draw the tables below on a piece of paper and complete the exercise. The information in the tables was given by way of example; you need to fill in your own assets and debts and monthly expenditure items.

Liquid Assets could be listed as those possessions that you could possibly sell to meet your debts, like your car, house, radio, television, bicycle, etc. Put money

values next to those assets that you can possibly part with, if the need arises.

Remember, sell luxuries first and get the best price for it.

Your list of debts must include all outstanding debts for which you have entered into an agreement to pay (not monthly necessities, such as food). Include items you still have a loan on, even if you also added it as an asset which you can possibly liquefy.

Selling any asset that you bought on a payment plan, such as a car or house, could mean that you still remain with debt even after you sold the car or house, which has depreciated in value in the meantime, so make sure that you make a profit even after the debt has been released by you. Total the sum for assets and also for debts.

Assets and debts

| LIQUID ASSETS | R | C | DEBTS | R | c |
|-----------------------------|---|---|--------------------------------------|---|---|
| Current Value of Car | | | Full amount outstanding on house | | |
| Current Value of House | | | Full amount outstanding on car | | |
| Current Value of Radio | | | Full amount outstanding on clothing | | |
| Current Value of Television | | | Full amount outstanding on furniture | | |
| Current Value of Bicycle | | | Other accounts outstanding | | |
| Total | | | Total | | |

You will have to decide which assets you will sell first and what you will do with the money you obtain. A financial advisor can help you decide whether you should save the money or use it to pay off debt.

- **Budget**

Now draw up a list of all your monthly income sources and amounts. On the right hand side list monthly essential expenses and the amount of money that you will

need to pay for each. This is your budget, which will help you stay within the limits of what your monthly income is. You can use the table below and complete it with your own items.

Budget

| Income | R | C | Expenditure | R | c |
|------------------------|---|---|-------------------|---|---|
| Spouse's income | | | Electricity/water | | |
| UIF benefits | | | Food | | |
| Interest on investment | | | Petrol | | |
| Grants | | | Clothing | | |
| Total | | | Total | | |

You should list all your sources of monthly income, eg your spouse's income, Unemployment Insurance Fund (UIF) benefits, the interest from your investments, or grants from the Department of Social Development that you may qualify for, eg a State Old Age Pension, Disability Grant, etc (Contact the nearest office of the Department of Social Development to see whether you are eligible for any grant.) Total the sum of all amounts under **Monthly Income**.

If you contributed to a **Retrenchment Protector**, you could also benefit from payments **from** this policy. It protects you against financial losses as a result of retrenchment. Various financial organisations offer different benefits. One financial institution pays out a maximum amount of R30 000 per month for example, after a month waiting period. You need to have been permanently employed, for two years or more and at least one year with the same employer, in order to qualify for a claim payment.

List all your **expenses** on the right hand of the table above-these could be food, electricity, school fees, etc. Remember to include all your expenses that you absolutely must pay-do not include luxuries. Total the sum of all amounts under **Expenditure**.

- **Balancing the books**

You will now have to make careful calculations on how you will survive from month to month. Will you be able to pay for monthly expenses with your monthly income? Is your lump sum big enough to bring in sufficient income after you have paid off your fixed debts? Will you be able to live from the interest from the balance? Remember it is best to pay off all fixed debts immediately when you are retrenched, except if you will deplete your income from interest to such an extent, that you cannot do it. Also consider whether you will have to sell your assets to supplement your lump sum and interest. This should, however, be done as a last resort. You could also make arrangements with your creditors to pay off a lower monthly installment on your debts.

Dealing with debt

Be careful of taking out loans. In the end you will still have to pay loans back with interest. Some loan sharks may offer you a loan at a very high interest-check whether these people are registered with the National Credit Regulator at tel 0860 627 627. You can also ask any money lender for his licence. These loan sharks target people who are in trouble and who have a bad payment record. If you cannot pay, they take the little assets that you still have. There is a directory of loan sharks that shows which loan sharks you must avoid under [www. loansharks.co.za](http://www.loansharks.co.za).

A financial adviser can help you with some good strategies to deal with challenges, such as consolidating your debt and paying a lower amount (debt rescue), arranging to take a payment holiday on your house, etc.

Saving and investment

Saving means putting money aside in a bank or post office, on a regular basis, or in lump sums, when possible. This money is always available when needed, but earns a low interest. Investing money means using some scheme where money is tied up for a period and which earns more interest. You will have to make some decisions to invest your lump sum. One of the most important rules is to always choose a

reputable company to do business with. Do not invest your hard earned money in a “get rich quick scheme.”

You could for example invest your money in a bank by means of a notice deposit. If you do this, your money will be tied up for a shorter or longer period (you have a choice of giving notice of withdrawal between 32, 60 and 90 days), and you can decide whether you want interest paid to you, to live on, or add it to your investment if you have another means of living. A fixed deposit usually means that your money is tied up for a period of three months or longer, but you receive a higher interest rate.

You could also invest your money in buying property like a house that you can rent out, so that you have a monthly income. You should however consider this carefully, because you will have recurring costs on repair and maintenance and sometimes tenants do not pay. Another option is to use some of your money to buy a small business. This is also risky and you should use very good judgment not to lose your money. Buying a retirement annuity could mean that you cannot touch the money before you are 55 years old.

The above is just very basic financial advice. You should discuss with a financial services adviser how to invest your money to work for you in the best way possible. Be very careful to find out as much as possible about all options before investing your money. There are many unscrupulous people that may offer you super high interest through investing in all sorts of unrealistic schemes.

Choosing a financial adviser

Financial advisers working for a bank or insurance company usually do not charge for giving financial advice. Independent financial advisers working for themselves or a private company, however, usually charge for their advice. You can find the names of independent advisers under “Financial Services” in the Yellow Pages telephone directory.

Ask your financial adviser how long he/she has been in the business and also ask for references that you could call to make sure that the person has been in business for as long as he/she says. A financial adviser should also not represent one company,

but rather be able to give you advice on all options. The financial adviser must also be registered to provide financial advice in terms of the Financial Advisory and intermediary Services Act, Act 37 of 2002. You can contact the Financial Services Board at tel. 012 428 8000, to establish whether a financial adviser is registered. Only registered financial advisers provide advice that you can trust, because they have the necessary knowledge and are reputable. You can also ask to see the person's licence.

Apart from saving and investment advice, a financial adviser can help you with a variety of good strategies to manage financial challenges,

What to do when visiting a financial adviser

Step 1 (Actions to take)

- Phone or visit your nearest Bank and make an appointment with a financial adviser
- Make sure of the time of your appointment, as well as where you should announce your presence on the day of your appointment.

Step 2 (Questions to ask)

- Please explain to me how investments work.
- Why is it to my advantage to invest money at all?
- Why can I just not keep my money in a safe place that only I know of?
- For what period should I invest money to earn the highest interest?
- How do the shorter and longer periods of investment work?
- When may I withdraw my money?
- Is it not possible to withdraw money at any time? What steps can be taken, should I urgently need money?
- What is meant by interest?
- Say, for instance, I invest R10 000.00. What does it mean to earn 10% or 13% interest on it?
- Where can I earn the highest interest on my money?
- What are subscription shares?
- How do I buy subscription shares?
- How do I know which subscription shares to buy?
- Where can I see what the subscription shares are worth?
- How and when do I sell my subscription shares?
- How much money do I need to invest in subscription shares?
- How much does one earn with subscription shares?
- Given my severance package, how can I make it work best for me?

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