

OLD MUTUAL SUPERFUND

MEMBER EDUCATIONAL NEWSFLASH – ISSUE 3

WHAT IS THE IMPACT OF TAKING YOUR RETIREMENT SAVINGS IN CASH?

On average, we change jobs about seven times in our working lives, and 95 percent of us end up without enough money when we retire. The main reason is that many of us cash in our retirement savings instead of keeping them when we move from one job to the next.

When we cash in our retirement savings we blow a huge hole in our future financial freedom. Financial freedom is what we get when the money we've invested by the time we retire is enough to give us an income for the rest of our lives. Our retirement savings are the most important part of this, because that money – the money we save up towards retirement – is probably the biggest investment we'll ever make, and the one that takes longest to build up.

Cashing in your retirement savings has serious consequences – and you need to know what they are.

IT COSTS YOU MORE THAN YOU REALISE

Let's say you start saving with 30 years to go before retirement, but you cash it all in after the first 10 years. Then you start saving again, aiming to catch up to the same value by the time you retire as if you hadn't cashed in. To do that, you'll have to save three times as much per month. If you cash in after 20 years, and then start saving again, you'll need to put away ten times as much monthly to reach your target.

Some of the money you cash in also has to go to the taxman, instead of staying in your retirement fund to help it grow. The

more money you leave in the fund, the faster it increases.

YOUR COST OF LIVING

If you take money from your retirement fund to pay off debt, then you're making things worse for yourself in the long run. If you have too much debt, that means you're already spending more than you earn. **Cashing in your retirement savings means you might have no income at all when you retire.** If you can't afford your lifestyle now, while you're earning a salary, you certainly won't afford it when you retire. You have to bite the bullet now. Reduce your spending and pay off your debts with the income you have left after putting away savings. It's the only way you'll be sure of financial freedom in future.

It's just logical that cashing in your retirement savings is not the first thing you should do when you leave your job. In fact, it's the very last resort.

Click here to see an example of what could happen if you take your retirement savings in cash before you retire.



ALWAYS CHOOSE TO PRESERVE

It's not easy to make the right decisions when you resign or are retrenched or dismissed before retirement. You have to choose what to do with the retirement savings from your retirement fund – and you should aim to reinvest the money.

TWO BASIC CHOICES

TRANSFER TO AN APPROVED RETIREMENT FUND

You can reinvest your retirement benefit by transferring the whole lot, **tax-free**, to another approved retirement fund such as:

1. A preservation fund
2. A retirement annuity fund
3. Your new employer's fund

OR

CASH LUMP SUM

You can choose to take the whole withdrawal benefit as a **taxable** cash lump sum. Think carefully before you go for this option, because it could have a serious negative effect on your chances of a comfortable retirement. Why? Firstly, the whole lump sum is taxable. Secondly, you may be tempted to spend what's left after tax instead of reinvesting it for your retirement. So if you do go this route, your best bet would be to reinvest your benefit so that the money you've saved for your retirement is kept intact.

You can either ask a financial adviser to help you decide what to do with your benefit, or you can decide for yourself and invest directly to preserve your retirement savings.

GOOD NEWS!

As a member of Old Mutual SuperFund retirement fund, you have access to Old Mutual SuperFund Preserver. The Preserver Preservation Fund is an easy, fuss-free way to reinvest if you change jobs, resign, get retrenched, or are dismissed. Once you are an Old Mutual SuperFund Preserver member, your retirement savings stay intact and you still get to enjoy all the benefits that the Old Mutual SuperFund Preserver offers.

For more information, click here.

