Prudential Investment Managers

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What to do with your retirement benefit after you’ve resigned

There are three main Rs related to leaving your job: you’ve either retired, been retrenched, or resigned. Retirement is what you’ve been saving and investing towards for years; retrenchment is (in most cases) what you’ve been insuring yourself against; and resignation is usually an intentional move… but when it happens, many investors aren’t quite sure what to do.

One of the biggest financial questions you’ll have to answer when you quit your job is what to do with your retirement savings. If you’ve been contributing to your employer’s pension or provident fund, you have a few options, of which the two most common are either to cash out the funds, or to transfer them to a preservation fund. A preservation fund is an investment vehicle that allows you to keep all of your savings intact, and you don’t incur any tax on transfer. Instead, your money continues to grow tax-free until you retire and start drawing down funds from it.

While these two options seem fairly straightforward, it's often at this intersection where the big battle between your head and your heart takes place… do you take the money and run, or do you act wisely and invest in your future?

Depending on how long you've been working, and how much you've contributed, there might be a fairly generous amount of cash sitting in your retirement fund. It's hugely tempting to take the money and use it for things like paying off your credit card, renovating your home or splashing out on a well-deserved holiday. But if you speak to your financial adviser, they'll probably offer you a single simple piece of advice: Don't do it.

Countless studies and surveys have shown that the vast majority of South African retirement fund members aren't retiring with enough money. One of the leading causes of this is that members aren't saving enough, which is then exacerbated when they decide against preserving their retirement benefit after changing jobs. And even though the cash might look tempting, once the taxman takes his slice right away (which he does to discourage exactly this kind of behaviour), you're likely to end up with significantly less than what you'd hoped for.

Perhaps you're thinking that you can simply "catch up" on your retirement savings by contributing more at a later stage. If this is the case, you may be in for an unpleasant surprise. Not only is your retirement benefit reduced by taxes (as mentioned above), it also misses out on the opportunity to compound over time. What this means that you'll end up having to contribute a lot more than what you took out, simply to break even. Try our retirement fund calculator to see just how much of a difference a few thousand rands can have on your long-term retirement goals. The results are often scary!

Leaving your job is a major event in your life, and you'll need a steady hand (and a clear head) to guide you through it, helping to make sure that you stay on track towards your retirement goals. Your financial adviser will be able to assist you in making the most appropriate decision for your particular circumstances: your risk profile, your time horizon, and your ultimate goals.

In summary, the key thing when you're leaving or changing jobs is to manage your retirement benefit correctly. In most instances, it's better to transfer your retirement benefits directly into a preservation fund. And if the urge to take the cash starts seeming more and more appealing, remember… that lump-sum payment could either be a valuable part of your existing investment strategy, or (if you choose poorly) a missed opportunity. Don't sacrifice your long-term well-being for a short-term gain.

For more information, speak to our Client Services Team on 0860 105 775 or email us at query@prudential.co.za.