THE ESSENTIAL GUIDE TO MONEY MANAGEMENT

see money differently

NEDBANK

THE ESSENTIAL GUIDE TO MONEY MANAGEMENT

The responsibility of managing your finances begins on the day you earn your first rand and continues throughout your life.

Just as we take care of our physical and emotional health, we also need to maintain and look after our financial fitness.

When it comes to our physical well-being, many of us at least attempt to exercise, manage our weight, commit to healthy eating or have regular medical check-ups, yet sadly few of us invest the same amount of time and effort to take care of our financial well-being.

Financial health is an area that we simply neglect – often out of ignorance. Other times we shy away because it feels overwhelming. **The good news is, it's never too late to start.**

This essential guide seeks to achieve 2 objectives:

1. To give you a framework with universal financial principles to guide you on the different aspects of managing your money wisely to support your financial well-being.
2. To create more awareness of the financial choices, opportunities and pitfalls you are likely to be facing at various points during your life.

The Essential Guide to Money Management covers 6 chapters of financial decision-making. Understanding that people have different levels of financial knowledge and needs, this guide is designed to help you get what you need, when you need it.

Hopefully, equipped with this guide, you can identify possible blind spots before they affect your financial well-being and take the necessary actions to build a healthy financial future.

Wishing you all the best
Your Nedbank Team

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1 HEALTHY MONEY HABITS AND BUDGETING

Understanding your spending habits

A good starting point for any money management plan is to understand your current expenses and spending habits. Whether you are in the fortunate position to have money left over at the end of the month, or are managing your money tightly to make ends meet, analysing and keeping track of what you spend your money on will form an important pillar of your financial well-being into the future.

Analysing your spend will help you with the following:

1. **Make more conscious spending decisions.**
2. **Quantify how much you could or should be saving each month.**
3. **Set a realistic budget that you can stick to.**

Living within your means

The principle of 'living within your means' simply suggests you should keep your expenses below your income. It is perhaps stating the obvious, but, many people end up spending more than they can afford - whether as a result of poor planning, excessive spending habits or both. If you are consistently living above your means, you will soon find yourself stuck in a debt cycle that can be difficult to escape.

Research shows that people who manage their spending patterns and plan carefully for the bigger expenditures are much less likely to have financial trouble later.

Tracking your expenses

Understanding your current expenses simply requires logging all your spend for a couple of months and allocating each purchase or expense to a logical category. It's important that you account for everything. It's often the little amounts that we are unaware of that can add up quickly. There are many tools out in the market to help you track your expenses. You should choose the method that works best for you.

Manual tracking of till slips and invoices
This may be old style, but certainly works! Keep all receipts (nothing wrong with the good old shoe box) and sit down at the end of the month to capture them into a spreadsheet or journal.

Money tracking and budgeting apps
There are many apps available – many of them for free – that let you capture your expenses digitally on your phone as you go. It means less work for you at the end of the month, and you can immediately see where you are with your spending.

Integrated money-tracking solutions
Some banks offer more integrated solutions, where expense tracking is offered as part of online banking. The advantage is that all electronic transactions can be populated from your bank account automatically. But, be mindful that you will have to add cash payments manually to see the complete picture.

Full accounting packages
While typically aimed at business users, full accounting packages, for example Xero, Sage or Quickbooks can help to stay on top of your personal finances, especially if your financial affairs are more complex.

Nedbank MoneyTracker
This is a fully integrated money-tracking solution for Nedbank Online Banking and Money app users. It works well for people who do all their banking with Nedbank and where the majority of transactions are done through a Nedbank credit card or bank account.

Categorising your expenses

Now that you have chosen a method, start by **selecting the categories that are relevant to you.** There is a common set of categories that would apply to most households, but then there are things that are specific to you and your circumstances. Its important that you come up with a list that makes sense for you. You can always add more categories as you go along **– the more detailed your budget, the easier to understand your spending pattern.**

Typical spend categories: (not exhaustive)

HOME	**TRANSPORT**	**PERSONAL ENTERTAINMENT**
Housing (eg rental, bond cost)	Car finance	Subscriptions (DStv, apps, data)
Lights, water, rates, levies	Car insurance and tracking	Sports and hobbies
Home insurance	Car maintenance	Restaurants and entertainment
Wages (eg domestic, gardener)	Petrol	**ONCE-OFFS OR AD HOC**
Security	**PERSONAL OR FAMILY**	Repair and maintenance
Pets	Medical aid	Holidays
Groceries	Clothing	Gifts
EDUCATION	Toiletries	Luxuries
School fees	Child care	Emergency purchase
Uniform and stationary	Pocket money	Other

Calculating your average spend

While many expenses are fixed every month, others may vary based on the number of days in a month or the time of the year. Some expenses are quarterly or even once-off. It is therefore a good idea to unpack your expenses for at least three months to calculate an average.

Example: Categorising and listing expenses

CATEGORY	MONTH 1	MONTH 2	MONTH 3	AVERAGE
HOME				
Rental	R15 000	R15 000	R15 000	R15 000
Lights and water	R3 523	R2 123	R2 719	R2 788
Groceries	R6 125	R8 123	R5 721	R6 656
PERSONAL OR FAMILY				
Clothing	R7 500	R0	R899	R2 799
EDUCATION				
School fees	R13 000	R0	R0	R4 333
Etc				
TOTAL	**R45 148**	**R25 246**	**R24 339**	**R31 576**

You might even want to look back further to make sure you don't miss less frequent expenses like medical expenses, yearly tuition, support for family members, seasonal and recreational costs, gifts, charity and holidays.

Wants vs needs

Now that you have a good idea what you are spending your money on, classify your spend into needs and wants. This way you can get a better idea of where you could improve your spending habits.

Needs are things that you must have to live. Wants are things that you wish to have. **Needs are necessities while wants are desires.**

It is important to distinguish between these when understanding your spending patterns and budgeting, as this will **help you to identify wastage, to reallocate money if necessary and to prioritise items.**

Of course we all have wants, and the idea is not to get rid of them all. It is merely to make a conscious decision about how much money we are prepared to spend on these so-called 'nice to haves' relative to other critical items like medical protection or creating a savings buffer.

Classifying your spend into needs and wants is an important step before setting up a a budget. Your budget should be realistic and a plan you commit to, not a moving target. Obviously you can adjust your budget, but by understanding your spending pattern, needs and wants, you will end up with a more realistic and easier-to-stick-to budget from the start.

The next step is to look at your average spend, and carefully go through each item to see if it is a need or a want or perhaps a bit of both.

Example: classifying needs and wants

EXPENSE CATEGORIES	AVERAGE	NEEDS	WANTS
HOME			
Rental	R15 000	R15 000	R 0
Water and electricity	R2 788	R2 000	R 788
Groceries	R6 656	R5 000	R1 656
PERSONAL OR FAMILY			
Clothing	R2 799	R1 000	R1 799
PERSONAL ENTERTAINMENT			
TV subscription	R1 788	R 0	R1 788
Eating out	R2 000	R 0	R2 000
Total	**R31 031**	**R23 000**	**R 8 031**
		74%	**26%**

Note that wants include what and where you buy. For example, we all need to spend money on groceries, but whether we buy expensive red meat vs cheaper chicken; shop at high end or budget shops; look for specials or just buy the first item that we see – are all matters of wants vs needs.

At times you may have to take more drastic measures and ask the hard questions, eg 'do I need such a big home?' or 'could I drive a smaller car?' Often the biggest savings comes from your bigger expenses.

Setting a budget you can stick to

Now that most of the hard work has been done, you are ready to set up your monthly budget. A budget is merely a spending plan that captures your commitment to save, invest and spend wisely and, if you stick to it, should keep you out of (unplanned) debt and set you up for a healthy financial future.

Budgeting is a to-and-fro process, which means you may not get to your best answer the first time round. For example, given your income, your current spending pattern may mean that you have less money available for savings than you were hoping for.

Relook your expenses by reprioritising your wants and needs and see where you can make changes to cut down on expenses. Or - although in reality much harder, you can look at your income to see if there is room to boost it, eg by taking on additional part-time or after-hours work.

Most of the expense-tracking tools discussed earlier also have a budgeting functionality. Some even come with useful alerts if you are reaching your set expense limit. A simple spreadsheet will otherwise do the job.

You should track your performance relative to your budget monthly and review your budget every quarter.

Budgets should also be reviewed every time there is a change in your circumstances (eg salary increase, a new expense or a significant change to your base expenses).

Budgeting principles

A POPULAR ONE IS 50/30/20

50% on needs

30% on wants

20% on savings or paying off debt

ANOTHER METHOD IS 70/20/10

70% for living expenses
(needs and wants)

20% for savings
(10% retirement and 10% insurance, emergencies and specific goals)

10% for debts
(eg credit card, car loan, home loan)

Steps to set up your budget

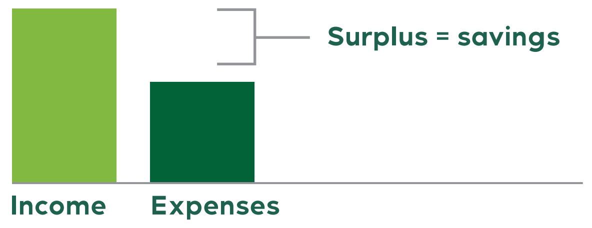
Follow these six steps to create your budget:

1. **Determine your income,** eg salary, commission, dividends, bonus, rental income, business interests.
2. **List your expense categories.** Make sure you include a category of 'other or miscellaneous' to allow for unexpected expenses that may come one's way.
3. **Apply your expense targets** (after reducing or eliminating any wants you are willing to dispense with).
4. If you already make regular savings (e.g. **contributions to an emergency fund or other savings goals)**, include these in your budget.
5. **Add up all the categories to see if there is a surplus or shortage.** If there is a surplus and you are getting to an appropriate mix of spending (take out: budgeting principle), you are good to go.
6. **If there is a shortfall,** you will need to revisit all elements of your budget. What can be done to increase your income? Can you take on a second or temporary job? Ask for a raise? Work more overtime? Or else your focus needs to be on expenses and you will have to repeat the needs vs wants exercise. Do you need to take more drastic measures in the short term, to ensure a more secure long-term future?

Saving intentionally

Any healthy money plan should include a component of savings. Savings are critical to protect you in case of unforeseen expenses and to enable your future financial growth. A well-planned budget should therefore always allow for a portion of income to be allocated to saving. A good number to start with is 10% of income, but that may not always be possible. The good thing is that **no amount is too small to start saving.**

EXAMPLE: SAVINGS CONTRIBUTION



No savings in your current plan?
Revisit the needs vs wants section to figure out where you can cut back more.

While the two terms 'saving' and 'investing' are often used interchangeably, we have differentiated between them as follows and applied this definition throughout the guide:

	SAVING	INVESTING
Description	Putting money aside each month to accumulate surplus money.	Putting surplus money to work to generate more money over the longer term.
Objective	• Create an emergency fund. • Enable specific future purchases (eg a new TV, the next holiday or a deposit for a home). • Support a future financial objective or accumulate money to invest.	• Optimise returns on surplus money. • Accumulate and grow assets or wealth, rather than solve for a specific need. • Work towards retirement.

Specific reasons for saving:

Emergencies: It is always good to have money saved for events that are not planned. While insurance plays a big role in protecting you against unforeseen circumstances, not all events are insurable. Whether your fridge packs up or you have to cover doctor bills, it is good to have some money set aside.

Buying a home or car: Even if you could get 100% bond or vehicle finance, it is always a good idea to put down a deposit. Home buying also involves other costs not covered by the bond, so best to start saving towards this goal. The costs of buying a property include transfer duties, moving costs or some essential maintenance, just to name a few.

Big purchases: Planning to go on holiday? Looking for a bigger TV? Eyeing a new bicycle? While some of these items can be bought on credit, it is far better to save up for them.

Future events: Whether you have to plan for your wedding, your kid's education or taking care of elderly parents – these events often result in big expenses. The earlier you start saving, the better you will be prepared.

Retirement: One of the most important reasons for saving is to prepare yourself for the time when you no longer can or want to work to generate an income. How much and when you start saving for your retirement will determine your lifestyle after retirement.

Discipline to put aside: You may not have a specific reason or goal for saving right now, but the discipline of saving should be nurtured from the day you earn your first income and is something you should instil in your children from the day you start handing out pocket money.

How to go about saving

Here are some basic tips that you might want to think about when starting your savings journey. Choose an approach that works for you and your circumstances.

1. **Set yourself one or more savings goals.** This should include how much, for what purpose and by when – putting aside 10% of income is a nice start, but any amount will work.
2. **Free up monthly savings aligned to your goals.** Revisit your list of need vs wants to see if you can free up additional money to save.
3. **Budget for savings every month.** Add this into your budget and stick to it.
4. **Decide on a savings instrument.** Have a dedicated specific savings account for each of your savings goals – depending on the timeline and amount you want to save and whether you are willing to lock your money in for a period, you can choose from a range of options.
5. **Review your budget and check your progress every month.** Not only will this help you stick to your personal savings plan, but it will also help you identify and fix problems quickly.

Why not come up with fun ways to save? Eg put money aside every time you avoid buying that coffee or chocolate. Or round up big purchases to the nearest 100 and save your change.

Choosing a savings product

Banks offer basic savings accounts as well as short- to long-term investment products.

The best product for your purpose will depend on the time frame of your savings goal; whether you want to have access to the money (just in case); the amount of money you are planning on saving; and whether you want to contribute daily, monthly or just once-off.

Refer to the following chapters in this guide covering different aspects of investing and how to go about selecting the right product. Speak to you banker to discuss the options your bank is offering.

MyPocket is a simple savings pocket, which can be linked to any Nedbank personal current account. You can add up to 10 pockets on the Money app or Online Banking. Name and specify your goal and start earning interest on your balances.

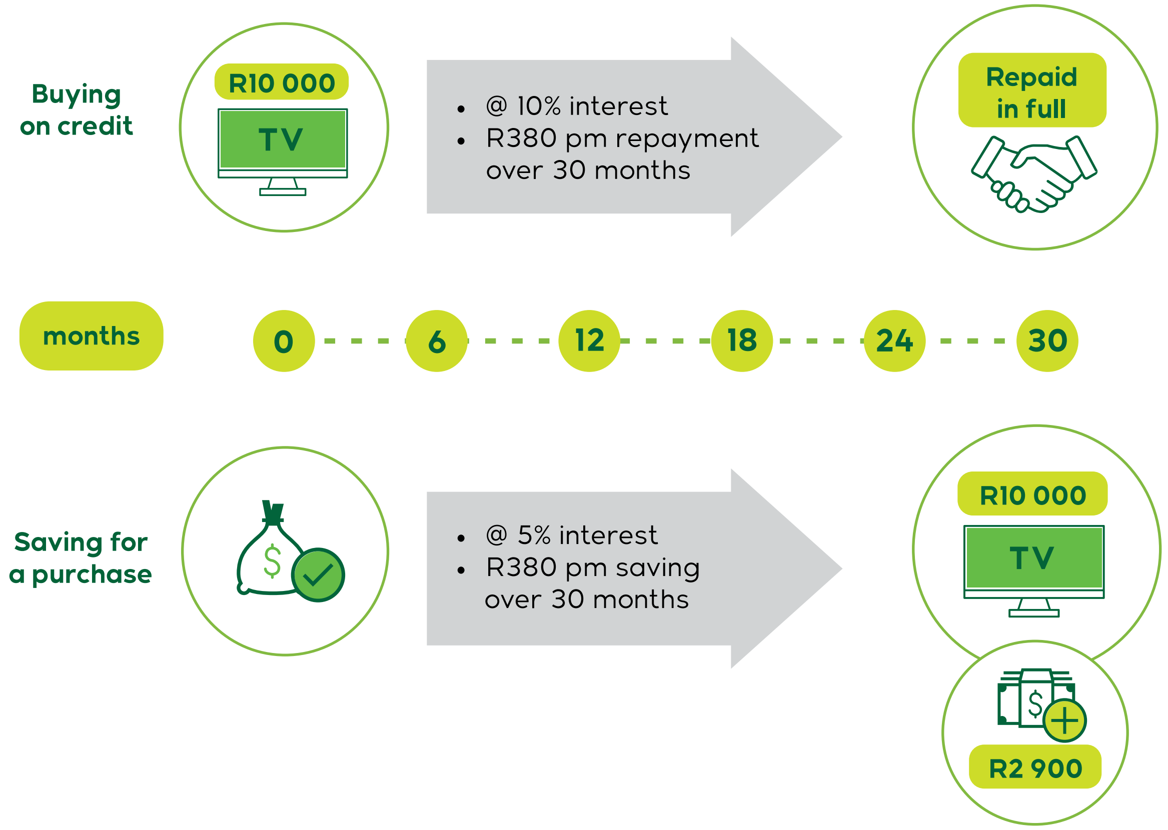
Or choose from a range of notice and fixed deposits – starting from as little as R500.

A fixed-deposit or 32-day notice account can be a good savings tool. There is less temptation to use the money before your savings goal is achieved.

Benefits of saving vs buying on credit

EXAMPLE: USING CREDIT VS SAVING FOR A PURCHASE

If you had R380 extra a month and wanted to buy a R10 000 TV:



Building and maintaining a healthy credit score

Why your credit score matters

Another important aspect of money management is building and maintaining a healthy credit score.

Your credit score and other information in the credit report help lenders evaluate your risk profile and determine if they should extend credit to you and, if so, how much.

But it is not only credit providers that use credit bureau information. Other service providers, including insurance companies or telecoms, landlords and even your employer, may look at your credit record before entering a contract with you.

Generally speaking, the higher the score, the better. But, a lower score does not automatically mean you are a bad risk, it could also just highlight that you have not borrowed money in recent times and so the bureau does not have sufficient data about you.

All of this means that, if you are planning to borrow money in future – for example to buy a house – it is better to pay attention to your credit score and record now, and take steps to improve it if you can.

By law, **South African citizens are entitled to one free credit report per year** from one of the credit bureaus: TransUnion, Compuscan, Experian, and XDS.

How to interpret a credit report

Different types of information make up your credit score:

1 Your overall score
Your credit score is a 3-digit number calculated by the credit bureaus according to statistical models they have developed over many years. Different bureaus have different scoring systems, but in all cases a higher score implies a better or lower risk profile, thus guiding credit providers on your creditworthiness. That said, credit providers no longer rely on the score in isolation, but augment the score with other data about you that they have access to or that you give them (eg bank statements of your current account).

2 Your credit history
Your credit report provides information about all the loans and credit you have ever taken and how you have paid them back. Here the important factors are the types of loans you have taken, your total exposure and if you have ever missed a payment, or had a dispute with a service provider resulting in an adverse record or, even worse, a judgment.

3 Your monthly payment obligations
Similarly to your credit history, the bureau also lists contracts you have entered with service providers, such as insurance companies, telecoms or municipalities. While it is not a matter of credit, the regularity of your payments demonstrates your ability to honour agreements. The amount you are contractually committed to may be used in your credit application to determine if you can afford the loan you have applied for. In that case, the higher the amount of payment obligations, the lower your affordability to take on new credit agreements.

If you have a cellphone contract, this will form part of your credit history.
This means you should always make sure you pay your phone contract timeously.

Steps to improve your credit profile

1. **Make your payments on time and in full.** This is probably the single biggest driver of your credit score.

2. **Avoid going to court.** A court order (or judgment) can do long-term damage to your score.

3. **Don't be brave by taking on too much debt, and close the accounts you are no longer using.** Even if you conduct your accounts well, too many credit cards and personal loans will play against you. Also, if you have facilities that you are not currently using, they will count towards your overall exposure, leaving less room for the home loan you may be after.

4. **Keep your credit limits to what you may need** but avoid sitting at your maximum limit for extensive periods. It is best to keep your outstanding balance and credit limits in line with your needs to improve your affordability.

5. **Keep credit enquiries to a minimum.** Too many enquiries will make you look like someone who is constantly in need of credit. With the increased digitisation of financial services it is expected that more providers are calling your profile more frequently (after all it is easy to get a quote from 5 institutions at once), but you still should try to contain it as much as you can.

6. **Don't use one form of credit to settle another.** However, should you have multiple debt repayments, debt consolidation may help to simplify your monthly obligations and make repayments easier to manage with one credit provider, and usually at a reduced interest rate.

7. **Get to know your spouse's credit record.** This is especially if you are married in community of property or if you are planning to apply for a home loan jointly.

8. **Don't blame a credit provider or contract provider for not invoicing or debiting your account.** Meeting your contractual obligations remains your responsibility.

You may have a legitimate dispute with a service provider, eg over an incorrect invoice or a cancelled contract. It is important to keep supporting documents and proof, so that if you are applying for credit you can submit this to support your application.

How to build a profile if you don't have one

Your credit score is calculated based on your credit history. This means if you have never borrowed, which is especially true of younger people, then you will not have much credit history (also called a thin file) meaning your score will be lower. It may even be that the credit bureau cannot generate a score for you at all in this case.

If you have a thin file, lenders might be reluctant to let you borrow from them. This might seem counterintuitive – if you have never gotten into debt or had to borrow money, shouldn't you be the perfect customer? However, creditors are not looking for someone who has always had enough money to cover their expenses, but rather for someone who knows how to manage credit well. They want to make sure that you can repay your debt and if you have done so in the past, they know that you're more likely to do so in the future.

One of the simplest ways to build up a credit history is to open a credit card. You should do this only if you are confident that you can manage your borrowings responsibly. As long as you're using the credit card every month to keep the account active and settling at least the minimum payment amount and keeping the account open, you will be building your credit history.

Setting up a direct debit for repayments as soon as you open the account will ensure you never make a late payment as long as you have enough money in your current account to cover the direct debit.

You can refer to the **credit card section in chapter 2** for more details on how to use and manage your credit card optimally.

2 RESPONSIBLE BORROWING

What debt is and why it is important

Overview

Debt is the money you owe — whether to the bank, to a retail store, to your friend or parents or any other party.

While debt often carries a stigma, not all debt is bad. In fact, if used smartly, debt can be a great tool to accelerate your financial plan and wealth creation. Debt can also be an efficient tool to optimise tax, and debt well managed helps to build your credit profile, which in turn will unlock access to more finance.

The trick is to know which type of finance to use for what purpose and to differentiate between good and bad debt to try and avoid the latter.

If you do find yourself in a situation where the debt you carry has become too much for you, there are mechanisms – such as debt counselling and debt consolidation — to help you get back on track.

Differentiating between good and bad debt

Good debt is money that you borrow to generate income and grow wealth, that is, to make more money. It is the type of debt that,over the long run, makes more money than it costs you. In many ways, good debt can be regarded as an investment.

Bad debt, on the other hand, is money that you cannot afford to repay and that originates as a result of poor money management or poor lifestyle choices.

Lastly, some debt could be considered neutral in that it is unavoidable and not due to poor money management but may not necessarily generate a direct benefit.

Examples of good and bad debt

Good debt is used to finance the following:

Property
A home loan is generally speaking a form of debt that is income generating (for instance if you buy it as a rental property or to replace the rental property your are currently paying for) while the underlying asset also delivers capital gains as the value of the property usually increases over time.

Education
Education will increase your capacity to earn a bigger income in the future, which in the long run should far outweigh the cost of the student loan.

Business ventures
Whether you are financing machinery, property or stock for a business, assuming you have a sound business plan and structured your business appropriately, business finance exists to support business growth.

Bad debt is used to finance the following:

Retail purchases
Store accounts, for instance to buy clothes, leisure items, electronics or white goods, that you could otherwise not afford.

Groceries and other monthly living expenses
Using a personal loan to fund a regular monthly shortfall in your living expenses can quickly get you into a debt spiral.

Other lifestyle choices
Financing your next holiday instead of saving for it, or financing a car that is more expensive than the one you really need, will leave you with little to show for. Think carefully before using debt for making lifestyle purchases that you cannot afford otherwise.

Loan types and how to use them

Overdraft facility
A facility linked to your current account that is available when you need it. Ideal for cashflow management during the month (for instance if debit orders are due on the 20th and your salary only gets paid on the 25th) or as an emergency buffer in case of unexpected expenses.

Credit card facility
Offers interest-free credit of up to 55 days, while also acting as a payment mechanism, making it an ideal solution for your monthly purchases when you settle them in full each month. Or, use the budget option for purchases you wish to repay monthly over a longer period (6-60 months), with interest charged accordingly. Certain cards come with additional features such as loyalty points, airport lounge access, purchase protection and travel insurance cover.

Personal loan
A lending product that offers you a lump sum of money paid directly into your bank account. The interest rate and resulting repayments are fixed, making budgeting easy. Ideal for once-off expenses such as home improvements.

Student loan
A student loan is a loan designed to help students pay for study fees such as tuition, stationery, books and living expenses.

Vehicle finance
Designed to fund the purchase of a new or used motor vehicle, but also used for construction and earth moving equipment or leisure crafts.

Home loan
Finance to support the buying of a home or investment property. Also available for building of a new home.

The next section will unpack each of these loan types in more detail.

Overdraft

You or your business can use an overdraft to bridge your working capital cycle, debtor payments or fluctuations in income and expenses. Because the facility is linked to a current account, overdrafts are available from your bank only. Once approved, the money is available until you (or the bank) choose to cancel the facility.

Who offers	• Banks
Structure of the facility	• Minimum of R500 up to R250 000 or more. The limit typically depends on your monthly income. Your needs and circumstances determine the size of the facility. • You do not have to make monthly repayments and there is no contractual term (no end date), unless you have asked for a temporary or reducing facility.
Alternatives	• Credit card facility or personal loan.
Costs	• Interest rates depend on your risk profile. • A once-off initiation fee and a monthly fee may apply, but it may be priced into your bundled account offering – check with your bank.
Watch out for	• While there is no monthly repayment due, banks want to see at least some form of deposit coming into the account monthly. • Because there is no minimum payment due, overdrafts require more financial discipline to not end up sitting at the limit.
Insurance	• Insurance does not come standard, but you can ask for overdraft insurance as an optional extra. • Overdraft insurance typically covers death, disability and retrenchment.

Credit card

Offers interest-free debt for up to 55 days, while also acting as a payment mechanism, making it an ideal solution for your monthly purchases when you settle them in full each month. Or use the budget option for purchases you wish to repay monthly over a longer period (6-60 months), with interest charged accordingly. Certain cards come with additional features such as loyalty points, airport lounge access, purchase protection and travel insurance cover.

Who offers	• Banks, retailers and licensed credit card providers
Structure of the facility	• Minimum of R1 000 and up to R300 000 or more (subject to affordability and credit checks). • Interest-free up to 55 days, thereafter interest will be charged. The outstanding balance along with the interest charged will revolve to the next month. • You can choose a budget facility at the till point to pay off specific purchases.
Alternatives	• Overdraft facility or personal loan.
Costs	• A once-off initiation and a monthly credit facility fee may apply, depending on your banking package (check with your bank). • A monthly card fee may apply or it may be priced into your bundled account offering (check with your bank).
Watch out for	• Protect your card information to avoid fraud. • Repay at least your minimum monthly repayment (typically 5% of the amount owed) or pay off your facility in full each month to avoid paying interest. • Make sure you understand and use the additional features to maximise your benefit.
Insurance	• Credit cards often come with built-in purchase protection and travel insurance. • Credit life insurance, to cover your repayments in case you die or are retrenched, is an optional extra.

How to use a credit card effectively

There are a few common rules you should stick to when using a credit card:

- **Avoid late payments.** Make your payments on time and when possible in full. Late payments can attract unnecessary fees and interest cost and will reflect negatively on your credit score.

- **Know the interest rate and your billing cycle.** You will get charged interest on amounts that are not settled within the interest-free period (30 to 55 days). Know when your bank's billing cycle starts and how your purchases fall into this billing cycle. If you pay only the minimum payment and not the full one, you pay interest on the outstanding balance.

- **Ideally settle your card at the end of each billing cycle in full.** If you cannot, repay as much as you can, not as little as you can. This is especially true if you use your credit card for monthly expenses, such as groceries. You do not want to buy food on credit over an extended period.

- **Avoid using the budget facility** (buy now, pay later). Although payments are spread over a longer period, you will accumulate interest on your purchases at the rate the bank has set.

- **Always check your statements** for purchases that you did not make. Even though a credit card is regarded as a secure payment mechanism, credit card fraud is not uncommon. If the transaction was '3D-secured' or 'EMV-compliant', which means you were asked for your PIN or equivalent additional security when the transaction was processed, you are liable for it. Tap-and-go transactions are also at your risk. For all other transaction types you can ask your credit provider to reverse fraudulent transactions.

- **Never share your card PIN,** or a combination of your credit card number and CVV number (three- or four-digit number on the back or front of the card enabling online purchases) with anyone or write it down.

Other benefits associated with credit cards

Generic features and benefits of all cards:

- Reduces the need for cash.
- Enables a range of payment mechanisms, including contactless (tap and go), online and scan to pay (QR code) payments. Can also be used on mobile payment platforms such as Apple Pay or Garmin Pay, turning the mobile phone into a secure payment tool.
- Ability to buy now, pay later (but be careful not to pay too late).
- Using it wisely helps build a good credit score, which can help you later when you wish to use other forms of credit like a bond. But used incorrectly the ease of use of a credit card can lead to you accumulating debt, which will hurt your credit score, making it harder and more expensive to access credit in future.

The following features differ by credit card. Always study the detailed description of your cards to understand what benefits you are entitled to and how to access these.

Benefits offered by certain cards:

- Earn rewards or points when swiping your card.
- Airport lounge access (local and/or international).
- Travel insurance covering medical expenses if you are injured abroad.
- Purchase protection and purchase warrantees.
- Concierge service giving you round-the-clock access to restaurant, entertainment, hotel or car hire services.

Personal loan

A lending product that offers you a lump sum of money paid directly into your bank account. The interest rate and resulting repayments are fixed, making budgeting easy. It is ideal for once-off expenses such as home improvements.

Who offers	• Banks, credit providers, fintechs and loan sharks.
Structure of the loan	• Receive a lump sum (R2 000 to R300 000) upfront, then repay in monthly instalments over the duration of the loan (terms typically vary from 6 to 72 months, but shorter term loans are also available).
Alternatives	• Overdraft, revolving facility and credit card. • Vehicle finance or a student loan if you meet the criteria. • Home loan readvance of a further loan if you own property.
Costs	• Interest rates depend on your risk profile. • A once-off initiation fee and a monthly service fee apply. • There are typically no penalty fees for early settlement.
Watch out for	• Use of personal loans for monthly expenses. • If you do not pay back your monthly instalments, it will impact your credit rating negatively. • Personal loans typically have higher interest rates, so make sure that you borrow from a reputable institution. • Avoid multiple personal loans.
Insurance	• Credit life insurance to cover your repayments in case you die or lose your income is usually compulsory. • Most credit providers will offer insurance as part of the product, but you may source your own insurance (and give proof of that).

Student loan

A student loan is designed to help students pay for study-related fees, such as tuition, supplies, books and living expenses.

Who offers	• Banks
Structure of the loan	• A loan designed for students to cover their tuition, accommodation, books and living expenses. • Requires a guarantor or parent to sign surety. • Full-time students must pay back the interest portion of the loan while studying or still doing their internship or articles. Paying back the capital portion of the loan starts once studies are complete. • Part-time students must repay both interest and capital while studying.
Alternatives	• Personal loan.
Costs	• Interest rates depend on your risk profile – your risk profile also takes into account your field of study and grades. • A once-off initiation fee applies, but no monthly service fee. • There is no penalty for early settlement.
Watch out for	• Your credit rating will be negatively affected if you do not pay back monthly instalments.
Insurance	• Student loan insurance is optional. • Typically provides cover for death and disability.

Vehicle and asset finance

Designed to fund the buying of a new or used motor vehicle (but also used for yellow goods machinery and leisure craft).

Who offers	• Banks or finance divisions of motor vehicle manufacturers. • Car dealerships can act as accredited agents of the major banks to facilitate the credit application.
Structure of the loan	• Minimum loan amount of R50 000 (typically). • They may require a deposit. • The standard term is five years (but shorter or longer terms are also available, for instance 24 to 96 months). • You pay fixed monthly instalments.
Alternatives	• Instalment lease or rental finance. • Personal loan if you are buying an older used car.
Costs	• Interest rates depend on your risk profile. • Credit fees apply. • You may pay penalty fees if you pay the loan early.
Watch out for	• Balloon payments that is a final 'residual payment'. While this lowers your monthly instalments, it leaves you with a big payment due at the end of the loan. • Applying via the dealership is convenient, but applying directly with your bank should get you a better finance deal. • Certain car manufacturers (original equipment manufacturers) offer finance packages as part of the vehicle deal. These are special finance schemes that typically offer highly competitive rates.
Insurance	• It is compulsory to keep your vehicle comprehensively insured for the full term of the finance agreement. This includes insuring against theft, damage and third-party claims.

Home loan or property finance

Finance to support the purchase of a home or investment property. Also available for building of a new home.

Who offers	• Banks • Mortgage originators act as agents to facilitate the credit application process.
Structure of the loan	• Ordinary home loan is typically structured over 20 years, but longer or shorter periods are available. • A deposit may be required, but 100% loans are available, depending on the value of the property. • The interest rate can be fixed or variable. • Fixed monthly instalments (but adjusted for changes in interest rates if you choose a variable interest rate). • Can be registered as a joint bond, with two or more parties responsible for the repayment.
Alternatives	• Personal loan if amount needed is < R300 000.
Costs	• A once-off Initiation fee and monthly service fees apply. • Other non-finance fees apply (for instance bond registration and lawyer fees when registering your bond). See the section on **Costs when buying a home** for more detail. • Bond cancellation lawyer fees for cancelling your bond after you have paid off your home loan and want your title deed or when you are selling your home.
Watch out for	• When making an offer on a property, consider all the costs associated with the transaction, including transfer fees, moving costs, monthly levies, rates and taxes and emergency home repairs.
Insurance	• Home owner cover is compulsory. • Some credit providers may require life cover. • Household/contents insurance is optional (only applies if you stay in your property).

Different types of property finance

First or ordinary home loan

A standard loan for a property purchase (or to get credit if you already have a property).

HomeVision loan

- Same as first or ordinary loan, but the bond gets registered at a higher value than the required loan amount, allowing you to apply for a further loan in future without having to go through another bond registration process.
- Bond registration costs will be calculated on the HomeVision value.
- Credit assessment and valuation required to access a further loan in future (see details: Further loan).

Readvance

- Gives you access to the capital amount already repaid, which is the difference between your current limit and the original loan amount.
- The application is subject to a credit assessment, but this should be a simple process as the bank already has most of the information about you and the property.

Further loan

- You can apply for an amount in addition to your registered bond amount when the property has increased in value or you never applied for a full loan at the start.
- The application is subject to a credit assessment, as well as a property valuation to determine the latest value of the house.
- It also requires a second bond (for the extra value) to be registered. You will therefore have to pay attorney and bond registration fees. For people with a HomeVision loan this step falls away.
- Banks have the right to change the interest rates of the entire loan when you apply for a further loan, but typically offer a blended rate (that is they keep the rate for the original loan the same and charge a market price for the extra portion).

Building loan

- Designed for the construction of a dwelling, or additions and improvements to an existing structure.
- The loan amount (and bond registration) will be based on the estimated future value of the house based on the building plans.
- The loan will be paid out in tranches as agreed parts of the building have been completed.
- Builders must be approved by the National Home Builders Registration Council and building must start within an agreed period, normally not more than three months after the transfer or as agreed in the building contract.

Other types of property finance

- Vacant land: This will typically be financed for selected preapproved developments only.
- Commercial property finance: Finance will depend on whether you occupy the property and the zoning.
- Second or investment or rental properties – all the above types apply to additional properties as well, but the deposit requirements may be higher than for your primary home.
- Property facility – this is offered very selectively for the more serious property investor.

Please speak to your credit provider for specific rules about other property types.

Other considerations when purchasing property

Fixed vs variable rate:
With a variable-rate loan, the interest rate on the loan changes as the index (or prime) rate changes, meaning that your monthly payment will vary as rates change.

PROS AND CONS:

Variable interest rate:
Pro: If the prime interest rate goes down in response to market forces, the interest on your home loan goes down with it, and you save money.

Con: If, on the other hand, the prime interest rate goes up, so do your repayments. The fluctuating interest rates can make it difficult to budget, especially in a volatile market.

Fixed interest rate:
Pro: You keep paying the same home loan repayment amount monthly for an initial agreed period, regardless of fluctuations in the market. You can budget for your repayments with 100% accuracy.

Con: Depending on where in the interest rate cycle you find yourself, you could end up paying more in the short term. This is because the bank accommodates the future prime rate expectations over the fixed period. This means at the lower end of the rate cycle, the fixed rate could be 100 or 200 basis points higher than the current (variable) rate.

Con: Fixed interest rates expire after the initial agreed period, after which you will either have to go back to variable interest rates, or negotiate a new fixed rate.

Con: The option of a fixed interest rate for the initial agreed period is offered only after bond registration, so you cannot plan for this upfront.

Buying vs renting:
The decision to buy or rent depends on both your individual circumstances and the market conditions, but there are always good arguments for both. Renting does not incur additional expenses such as rates and taxes, maintenance and other expenses that the owner must pay. Buying your own home offers long-term benefits of security, capital and potential growth in personal assets, as the value of your home is expected to increase over time.

Costs when buying a home

1 Deposit

While most banks offer 100% loans, depending on the value of the property and your credit history, you may need to put down a deposit, ranging from 10 to 30% of the purchase price of your home. You would need this amount available to secure the deal and typically must pay the deposit to the transferring attorney at the time of securing the deal.

2 Initiation fee

The bank charges this fee at the start of the loan (if you take out a bond). It can be paid upfront and as a once-off fee, or you can make it part of your loan amount and pay it back with the rest of the capital. The National Credit Act regulates the fee and it is currently a maximum of R6 037, including VAT (2021).

3 Transfer duty

After your deposit, the transfer duty is one of the biggest upfront and once-off costs to consider when buying a property. Transfer duty is a tax the government levies and no property can be transferred to a new owner if they do not pay this. The only time transfer duty is not payable in a normal sale of property is when you are buying from a registered VAT vendor (developers as an example), in which case VAT is included in the price.

The higher the value of the property you buy, the higher the percentage of duty payable. For the 2021 tax year property transactions below R1 million are exempt from transfer duty. You can check the **SARS website** for transfer duty rates based on property price categories – https://www.sars.gov.za/tax-Rates/ Pages/transfer-duty.aspx.

4 Transfer cost

Transfer cost is the professional fee that the conveyancing or transferring attorney charges in a property transaction to register your ownership of the property with the deeds office, protecting your legal title to the property. This is paid once-off before registration and is not to be confused with transfer duty.

5 Bond registration costs

For the bank to make sure that it has some form of security over the property you have taken a loan on, it will register a mortgage bond that gives the bank certain rights. The bond is registered at the same time as the transfer of the property and it is done by the bond registration attorney, an attorney on the bank's panel. Similar to transfer cost, this attorney will also charge his professional fee for registering the bond, which the buyer has to pay. In 2021, on a bond of R650 000 the fee is around R16 500 and on a R2 million bond, it is around R30 000, including VAT. This cost is paid once-off to the bond attorneys before the registration of the bond.

6 Occupational rent

This is a fee that is payable to the seller only if you want to move into the property before the transfer of the property into your name has been completed. The rate is usually stipulated in your offer to purchase.

7 Moving costs

Shop around for the best rates and services, and remember that month-end is the busiest and more expensive. Some removal companies offer special pricing during off-peak times, so just ask.

8 Home warranty

Research shows that most defaults on home loans occur within the first 18 months from when the loan is taken, because this is likely to be the time you're most financially stretched and can least afford costs associated with hidden defects. A home warranty addresses the issues around defects, and a professional property inspection is coupled with an insurance policy. This protects you, against the financial ramifications of any hidden defects that may emerge in the property for two years after taking transfer.

9 Homeowner's and life insurance

The bank will require protection to ensure that the value of their security on your loan, the house, remains intact. To achieve this, the bank will require that you take out insurance, which needs to stay in place for as long as you have the loan with the bank.

(a) Homeowner's insurance that protects the bricks and mortar of the property.
(b) Life cover is in some cases optional – ask your bank.

10 Contents insurance

Although not obligatory, it is highly recommended that you insure the contents of your home against loss or damage as a result of theft or burglary and other perils such as fire, flood and extreme weather conditions.

11 Rates and taxes

Once the transfer is completed, you will need to register for rates and taxes as well as your water and electricity services. The municipality will require a deposit – the amount varies from municipality to municipality and is linked to the municipal value of the home.

Nedbank's Home Buying Toolkit

We offer various solutions to help you with your property purchase:

Preapprovals – get an immediate indication of the loan amount, deposit requirements and estimated monthly instalments we could offer you. This helps you look for property in the right price band and strengthens your negotiation position.

Property report – access useful insights about the property you are considering to make an offer on. Information includes property sales prices and transaction volumes in the area and the transaction history of the property, including the last purchase price and a desktop valuation.

Online application process – enjoy a client-friendly, paperless application process to give you an answer in as quickly as two hours.

Getting out of debt trouble

Whether it is due to poor money management, excessive lifestyle choices or misfortunes, you may find yourself in a tight spot one day and unable to meet your debt obligations.

The only way to get out of the situation is to be proactive and face the challenges. Ignoring it will only make things worse. Start by reviewing your budget and seeing what adjustments you can make – the sections on **understanding spending habits** and **budgeting** may help. If there is no more room to adjust your budget, inform your credit provider(s) about your situation to see if they are willing to consider a different payment plan. If this too fails, consider applying for debt review.

Debt consolidation

Debt consolidation refers to the act of taking out a new loan to pay multiple debt by combining it into a single, larger loan, usually with more favourable repayment terms.

Depending on the policy of the lender providing the new loan, you may be in a position to negotiate better interest rates to pay off your combined facility or loan quicker.

Debt review or councelling

Debt review, otherwise known as debt counselling, is a debt solution targeted at South African consumers who are over-indebted and struggling to manage their finances. Debt review is the process whereby a debt counsellor assesses a client's outstanding debt and implements a restructured debt repayment plan.

Before you go down the path of debt review, make sure you have exhausted other ways of dealing with your debt first. You could, for example, ask your credit provider to restructure your existing debt over a longer period to reduce your repayment amount.

Debt review is a helpful **last resort** if you are struggling with debt. Your debt counsellor will ensure that you can afford your repayments again by negotiating with your creditors to have your instalments and interest rates reduced. However, there are drawbacks with going down the path of debt review that you need to be aware of.

If you do decide that debt review is the best choice for you, don't leave it too late.

Any account where legal action has started before a client applies for debt counselling cannot be included under debt review. Unfortunately, most clients who have exhausted all other alternatives end up waiting too long before approaching a debt counsellor.

When choosing a debt counsellor, make sure you are dealing with a reputable person by checking that they are registered with the National Credit Regulator.

Drawbacks of debt counselling

1. **It will take you longer to settle the amount you owe and you will pay more interest as well.** Ultimately, you could spend up to seven years servicing a short-term debt such as a clothing account or a cash loan. If you are lucky, you may have creditors who will reduce their interest rates to help you, but don't count on it.

2. **Debt counselling is not free**, so you do lose money by entering the debt counselling process. It will cost you up to a maximum of R6 000. Debt counsellors also receive a 5% monthly after-care fee capped at R400.

3. **While under debt review, you cannot get more credit** and you cannot use your credit facilities anymore.

Frequently asked questions

Q: What do banks look at when you apply for finance?

A: Banks look at two things – your ability and your willingness to repay.

- Your ability to pay talks to affordability. Can you afford to repay the loan? To assess affordability (which is stipulated by the National Credit Act), credit providers must confirm your income, your debt and other contractual obligations and your household expenses to calculate a surplus that must be bigger than the new instalment or debt obligation you are about to take on.
- Your willingness to pay has to do with your risk profile and conduct. Your credit record is a big factor in establishing your willingness but other factors may be considered as well.
- Your net asset value (your wealth after deducting what you owe) may also play a role in getting facilities, and affordability plays a role too.

Q: Do I need to take out insurance with the financial institution that is giving the credit?

A: The credit provider may make insurance a condition of the credit approval (for instance comprehensive car insurance in case of vehicle finance or homeowner's cover in case of a home loan) and offer you appropriate cover via their own or affiliated insurance company. You also have the right to get your own quotes and decide on another insurer, as long as you can give proof of insurance before the loans starts.

Q: What is a credit rating or score and how do banks check this?

A: Lenders will use a credit agency (for instance Experian or Transunion) to get a credit report that details your history and conduct regarding credit and other contractual agreements. It also gives an overall score. Please refer to the section on **building a healthy credit score** for more detail.

Q: What determines the interest I am offered on a loan or facility?

A: The rate you are being offered is primarily driven by the following factors:

1. **The type of loan or facility you are applying for:** Different credit products have different inherent risks. A home loan, for example, is considered lower risk, as the bank holds your property as security and the security tends to improve over time. Also, people typically want to stay in their home and are more inclined to pay their property first. A credit card, on the other hand, is unsecured and clients are more likely to default. That is why you pay a far higher rate for a credit card than for a home loan.
2. **Your credit profile:** If you have a better profile and historic conduct, the bank will consider you a lower risk, so you can expect a better rate compared to a person with a worse profile.
3. **Your banking relationship:** Are you applying for a facility with a bank where you have no other products or are you adding a product at you main bank? Expect a better rate from your primary bank. If you have a number of products at your bank, they can monitor your behaviour better (and lower their risk) and consider the overall value of the relationship over the long term.
4. **Direct dealing or application via an agent:** Agents (whether mortgage originators or car dealerships) earn commission on the deal and the bank carries this cost – expect a slightly higher rate when going via an agent.

Given the many factors involved in the pricing of your facility, it is a good idea to get more than one quote – especially for bigger or longer-term loans.

3 PREPARING TO INVEST

Basic investment principles

This chapter covers the basic principles of investing and how to think about managing your savings (or your extra money) in line with your financial objectives. We know from experience that if you do it correctly and smartly, investing is a powerful tool to meet your milestones, ensure financial independence, prepare for your retirement and even to leave a legacy.

A popular English proverb says, 'you reap what you sow', and this certainly can be applied to investing: The investment benefits you will reap in future depend on how much and how well you invest today.

To come up with the optimal investment strategy you need to understand some basic investment principles, such as risk vs return and risk returns relative to your investment horizon, compound interest and risk tolerance. We explain these in the next section.

We will also help you think through different investment options so that you know what choices are available. While many investments are directly and easily accessible even to the less experienced investor, others are more complex.

Lastly, we provide a financial planning framework to help you prioritise where you should focus first, and how to work towards a comprehensive plan that addresses all aspects of your financial health and sets you up for a sustainable financial future.

Ultimately, when it comes to financial planning, we recommend the advice of a financial advisor who is trained to assess your circumstances and tailor a comprehensive investment plan for you. Some financial service providers also offer robotics-based tools that guide you through a series of questions to help you choose an appropriate investment option, depending on your needs.

Investment risk vs return

As a general rule of investing, accepting higher risk should result in higher returns. This is based on free-market principles whereby the market tries to attract investors to higher-risk ventures by compensating them with greater rewards.

However, you need to consider the following:

1. Risk is often a subjective assessment, and so how you interpret of the risk associated with a specific investment may differ from how the next person sees it.

2. We are talking about a 'probability' of higher returns. Given the risk, there is a chance that the promised returns will not materialise.

3. When evaluating the risk and return of an investment, it is not only the income (expected interest or dividends) that could be at risk, but for certain investment types also the capital amount (the initial lump sum or monthly deposits you invest). It is not guaranteed and could reduce or be lost over time.

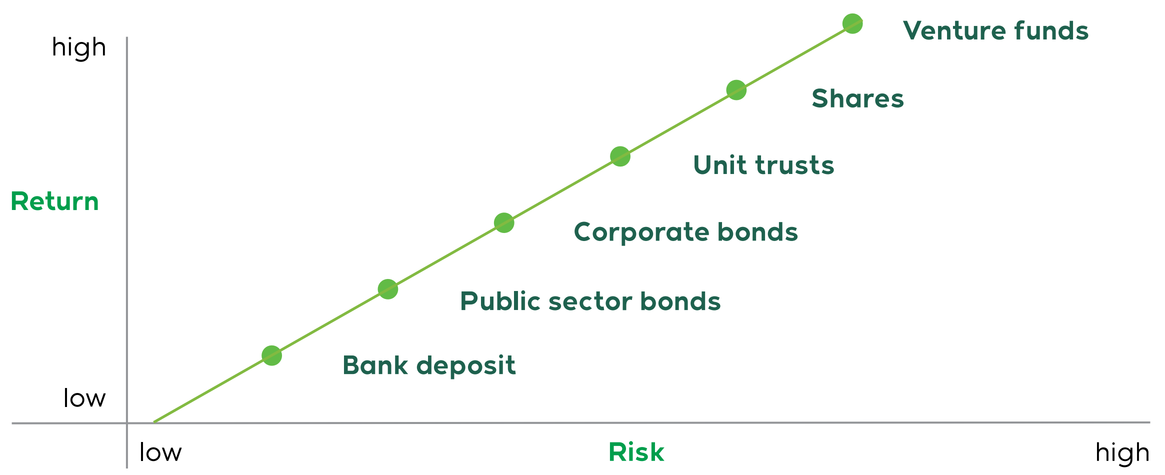
Take into account your investment horizon:

When assessing the risk vs return equation it is also important to take into account the investment horizon or the period for which you plan to invest your money.

Within a given investment type – say fixed deposits – returns tend to increase with duration and certain investment types tend to perform better over a longer period. That is why your investment horizon is an important driver of your investment decision. For example, when you have a longer investment horizon, the volatility of say the sharemarket has a smaller influence.

Look at how the graphs on the next page explain these concepts.

RISK VS RETURN BY INVESTMENT CLASS



Bank deposits typically give lower returns, but you will always earn interest on the capital amount and the capital amount is guaranteed.

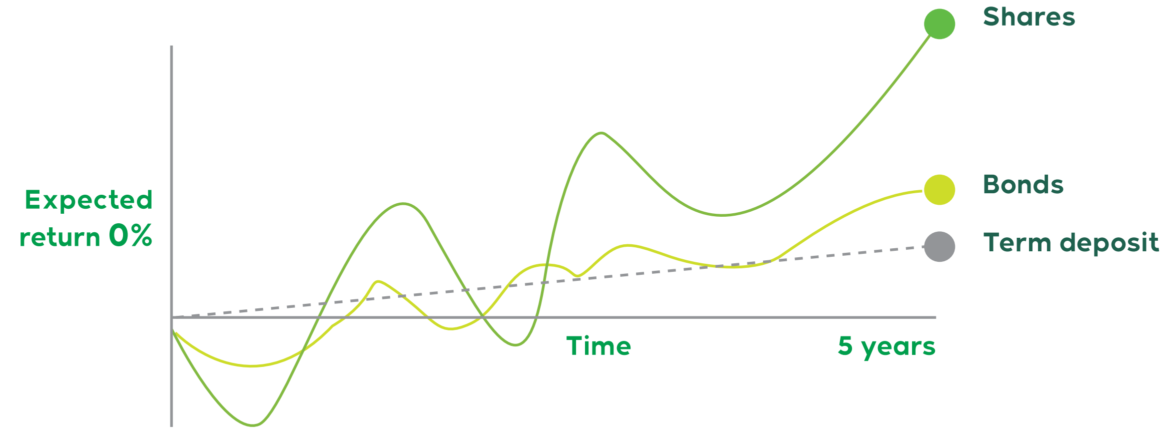
Share investments, such as unit trusts or direct shares, offer the prospect of higher returns in the form of dividends and growth of the underlying equity investment, but they are also more volatile. If you sell them at the wrong time in the cycle, you could end up with less than you started with.

If it sounds too good to be true, it probably is. If you come across an investment scheme that claims to offer **exorbitant returns in a short period of time at the promise of no risk, stay away** or do your homework properly to understand what the real returns and risks are.

The following graph illustrates how bank deposits (term deposits) outperform other investment classes if you have a short investment horizon.

However, as your time horizon extends, bonds and shares are expected to perform better.

EXPECTED RETURN OVER TIME BY INVESTMENT CLASS



Interest rates and compounding effects of interest

Interest is calculated as a percentage of the deposit balance, and it is paid to the investor periodically.

The ability to earn interest is fundamental to most (but not all) investments. To see which investment types earn interest, please refer to the section on **'common investment options'.**

Simple vs compound interest

The compounding effect of interest is a powerful accelerator for investors. The concept is important to understand when making investment decisions, such as when considering whether to have interest paid out as 'income' vs adding it to your capital. It also helps you to understand why investing early in life can bring you huge benefits later.

Interest (also called **simple interest**) is the return you earn on a deposit. It is calculated as a percentage of the deposit balance, and usually paid at agreed intervals (daily, monthly or yearly).

Compound interest is earned when you reinvest the interest you are earning. This cycle leads to increasing interest as you also earn interest on the interest. Your investment then grows much faster, and this growth is also known as exponential growth.

Over the medium to long term the compounding effect will become significant. For example, a 10-year investment that earns a yearly interest rate of 10% will earn 60% more if you reinvest your interest with your capial rather than having it paid out as income.

Comparing interest rates quoted

When comparing two rates that different financial institutions offer for the same or a similar product, read the small print to check which rate is quoted before assuming that the higher rate is automatically the better one.

An interest rate takes two forms: **nominal or effective:**

The nominal interest rate does not take into account the compounding period.

- The effective interest rate does take the compounding period into account and is a more accurate measure of the interest paid.

Rates are usually quoted as a yearly rate, but interest can be calculated for periods that are longer or shorter than one year, such as monthly, quarterly or half-yearly.

A quote that says the 'interest rate is 10%' typically means that interest is 10% per year, compounded yearly.

For interest compounded monthly, you will earn **interest on interest** from month two and every month thereafter on the accumulated interest. If interest is only compounded yearly, you will get interest on interest for year one only from the beginning of year two.

When comparing two rates it is important to **understand what rate is being quoted** and then **convert both rates to the same compounding cycle to ensure a like-for-like comparison.**

The most meaningful figure to look at is the **annual effective rate** (also called the annual equivalent rate), **which is the real return on any interest-paying investment when the effects of compounding over time are taken into account.**

All of this is most easily explained with an example:

Example:

For a 60-month deposit, Bank A advertises a rate of 6,76% and Bank B a rate of 5,84%. Ordinarily, we would assume the first offer to be a better deal.

But over the full investment period, both rates are giving the investor exactly the same investment growth, because when reading the small print, we discovered that Bank A was referring to interest on expiry and Bank B quoting the nominal annual interest, compounded monthly.

So, after adjusting for the compounding period quoted, both offers are exactly the same.

The below summarises the different rate types referred to in the market and illustrates what a 6,00% yearly rate for a 60-month investment would equate to if expressed in different interest rate terms.

INTEREST RATE TYPE	ABBREVIATION	ANNUAL EFFECTIVE RATE (NACA)
Nominal yearly interest, compounded monthly	NYCM	5,84%
Nominal yearly interest, compounded quarterly	NYCQ	5,87%
Nominal yearly interest, compounded half-yearly	-	5,91%
Nominal yearly interest, compounded yearly	**NYCY**	**6,00%** Commonly quoted
Interest on expiry	-	6,76%

Investment fees and costs

Another important consideration in your investment strategy is the cost of the investment and understanding what fees apply. Fees could take the form of a monthly admin fee, a fixed management fee and/or a commission fee that is calculated as a percentage of the investment or a percentage of the monthly premiums if facilitated by an advisor. In the case of stockbroking, additional platform or trading fees may apply.

There are also other upfront cost to be considered, for example, in the case of buying physical property, a range of property-specific costs apply (see the section on **costs when buying a home**), as well as tax implications.

Some financial institutions may promise a higher investment return than competitors, but may have a fee that effectively reduces your growth compared to an institution that may not charge a fee at all. It could mean that what looked like a better interest rate is worse after the fee is considered.

Banks generally do not charge fees on banking deposits that form part of their cash deposit investment offerings (eg 32-day notice or fixed-deposit accounts).

Investing vs speculating at a glance

Speculating is a form of investing that is targeting significantly higher returns but that carries substantial risk of permanent loss of some or all of the investment made. In a nutshell, speculation is not for the faint-hearted, those who are financially strained or those with insufficient knowledge.

But if you are a savvy investor with spare money that you are willing to take a chance on, then with a bit of luck and a lot of research into the right scheme, you may find yourself making some good money.

INVESTING VERSUS SPECULATING AT A GLANCE

	INVESTMENT	SPECULATION
TIME HORIZON	Long-term, saving for future	Generally a short timeline of less than one year
LEVEL OF RISK	Low/Moderate	High
INVESTOR ATTITUDE	Cautious and conservative	Aggressive
DECISION CRITERIA	Based on financial and basic factors	Based on technical charts, market psychology and individual opinion
EXAMPLES	Stock market, bonds, unit trusts	Options, foreign currencies, cryptocurrencies

Source: US Global Investors

Common investment types

The following is an overview of the most common investment types and their attributes. The list covers what the average investor would and should consider in their financial plan.

This is not to say that other investment opportunities, such as a direct investment in businesses, cryptocurrencies or niches such as arts or livestock should not be considered. But such investments often pose higher risk, are complex to understand, require specialist knowledge and are often not easily accessible.

The table on the right gives a summary of what is available, and some of these investment types are discussed in more detail in **chapter 5: Investing for growth.**

Look at the full range so that you are better equipped to make the right choices when the time comes.

INVESTMENT TYPE	INTEREST	DIVIDENDS	INCOME	CAPITAL GAINS	FEES/COST	INVESTMENT HORIZON	OFFERED BY
SAVINGS ACCOUNT	X				None	N/a	• Banks (can be digitally opened, else ask your banker)
DEPOSITS (call, notice or fixed term)	X				None	0-5 years	• Banks/Financial service providers (can be digitally opened, else ask your banker)
BONDS (government, parastatal, municipal and corporate)	X			X	Advisor fees (0-1% of asset value plus yearly fee)	from 1 month	• South African Post Office • National Treasury • Stockbrokers
UNIT TRUSTS (ready-made portfolio of shares with specific objectives)		X		X	Advisory fees Platform fees?	Med/Long	• Banks/FSPs • Investment managers
RETIREMENT ANNUITIES (RA) (tax-effective investment structured as a retirement fund in terms of the Pension Funds Act)	X	X		X	Advisory fees	Long	• Banks/FSPs • Asset managers/Insurers • Via a financial advisor
EXCHANGE-TRADED FUNDS (ETF) (ready-made portfolio of shares with specific objectives)		X		x	Brokerage and platform or admin fee	Med/Long	• Stockbrokers (open an online trading account or appoint a stockbroker)
SHARES AND DERIVATIVES (individual shares and other instruments listed on a stock exchange)	X	X	X	X	Stockbroking fees (online subscription or mandate) Trading fees	Med/Long	• Stockbrokers (open an online trading account or appoint a stockbroker)
GOLD COINS (eg Krugerrands)				X	Potentially storage fees (safe custody)	Med/Long	• Specialist outlets • Banks
PHYSICAL PROPERTY (commercial or residential land and buildings)			X	X	Various fees associated with the purchase and sale of the asset + ongoing maintenance and rates	Med/Long	• Estate agents • Private sellers

Thinking about your investment needs

On the next page is a set of questions you should ask yourself before making an investment decision. Even if you decided to use a financial advisor (which is a good idea), you will have to think about these questions as the advisor will use this as input to the investment recommendations for you.

Factors that will influence your investment choices

1 Investment amount
2 Investment horizon (duration)
3 Risk profile
4 Access to money
5 Tax considerations
6 Portfolio mix and diversification needs

The answers to these factors are driven by your circumstances such as your financial goals and objectives, current financial situation, your income, your age and your family responsibilities now and in the future.

Questions for the investor

QUESTIONS FOR THE INVESTOR	KEY CONSIDERATIONS
Investment objective Are you investing for a specific purpose or goal? Or do you just want to see your money grow? How much growth do you need to achieve to meet your objective?	A retirement goal requires a very different approach to investing than your emergency fund or savings towards a new car. Be clear about your goals.
Investment amount How much do you have to invest? Is it a once-off lump sum or will it be a regular monthly amount?	Certain investments require a minimum amount to start off with or are simply not enough if you consider the monthly fees.
Investment horizon How much time do you have? Over what period do you need to achieve your goal or by when will you need to access the investment?	You can generally bucket investments into short (0-3 years), medium (3-10 years) and long term (10+ years). The longer the investment period, the higher the return and generally speaking the lower the risk, as longer-term investments are less sensitive to short-term market fluctuations.
Access to money Is there a chance that you might need to access some or all of money before the end of your investment period? Is there a chance that you will suddenly need access or will you have time to plan for that?	Certain investment types (eg property) are not easily accessible in the short term. It takes time to sell a house, and if you rush the sale you may have to settle on a lower price. Others (eg fixed deposits) charge penalty fees for early withdrawal.
Risk profile What risks are you able to take? And what are you willing to give up for higher returns?	Read the section on risk profile for more detail.
Tax considerations In which tax jurisdictions do you operate? Are you sensitive to capital gains tax? Do you have existing tax losses you could use to write off against any gains? Have you used your tax-free allowances?	The main types of investment income that have income tax consequences are the following: • Local and foreign interest • Foreign dividends • Interest from real estate investment trusts (REITs) • Capital gains
Portfolio mix and diversification needs Do you already have a portfolio of investments? Are you over- or underexposed in a certain industry, asset class, investment period or currency?	A portfolio should be diversified at two levels: between asset categories and within asset categories. So in addition to allocating your investments among stocks, bonds, cash equivalents and possibly other asset categories, you will also need to spread out your investments within each asset category.

Understanding your risk profile

The investment choices that you make should be aligned to your financial risk profile. **The risk profile defines how much risk you are willing and able to take and is made up of three main parameters:**

RISK REQUIRED	RISK CAPACITY	RISK TOLERANCE
The level of risk required to achieve the desired level of investment return to meet your goals. This expresses a direct correlation to your required level of return.	The level to which you are objectively able to take risk without jeopardising your financial goals. Your risk capacity will depend on personal factors such as age, income levels, your stability in your job, your investment horizon and how much money you have.	Your emotional strength to deal with the variability and fluctuations in investment returns and ability to stomach large swings in the value of the investment. Usually defines a boundary; eg, you can handle to loose 15% of the capital you invested.

All three risk parameters are very important in designing a suitable investment portfolio.

Understanding you risk profile is essential when investing for the medium and long term. For shorter investment horizons, you should avoid investments with fluctuating returns that can calve away your original investment amount.

Trade-offs between risk required and risk capacity and tolerance

Unfortunately, in real life, your goals and objectives may require you to assume more risk than what your risk appetite suggests. For example, you may have a medium risk capacity and tolerance but your goals require you to consider investments with a high-risk characteristic over your investment time horizon.

It is then up to you to decide what you are willing to adjust, and select an investment option accordingly.

Example:

To retire on R30 000 per month in five years' time your investment capital may need to grow at say inflation plus 4% per year, which for argument's sake falls into the high-risk category. If you cannot handle high risk, you can do one of the below:

a) Increase your savings.
b) Postpone your anticipated retirement date.
c) Reduce your goal of R30 000 per month.
d) Apply a combination of the above.

Financial planning approach

Ultimately, you must always make any investment choice in the context of a comprehensive plan, after you have drawn up a realistic budget.

On the next page we give a simple framework to help you think about the various aspects of financial planning. There are many similar frameworks and there is not necessarily a right or wrong way of approaching your financial plan. While we have chosen three tiers, we are not suggesting that this is a linear exercise and that you can move to tier two only once tier one has been completed. In fact, throughout your life, as your circumstances change, you should revisit all three tiers regularly.

Tier 1:
Your financial plan should start with addressing and putting in place solutions for the areas that you have little or no control over. Addressing this should be a priority as it will give you a healthy financial foundation and peace of mind. We unpack the main elements of tier one in **chapter 4: Insurance to protect.**

Tier 2:
Once you have your basic life events covered, you can start building an investment portfolio that should span short-, medium- and longer-term considerations in line with your investment goals and retirement objectives. We are addressing components of this in **chapter 5: Investing for growth.** But this is a complex topic and entire books have been written on this.

Tier 3:
Lastly, as your financial responsibilities increase and your asset base grows, you need think about how you should organise your estate so that your beneficiaries get the most from it in line with your wishes.

Financial planning framework

Tier 3:
Organise and structure your estate to hand over your affairs optimally if you become incapacitated or when you die.

Estate planning

See chapter 6: **ESTATE PLANNING**

Tier 2:
Save money for use at specific periods in your life and invest for growth as part of a planned investment strategy.

Medium to long term

- Investment portfolio catering for your specific risk profile, life goals and investment horizon.
- Retirement planning.

Short term

Emergency fund.	Specific, near-term objectives.

See chapter 5: **INVESTING FOR GROWTH**

Tier 1:
Make provision for events in your life over which you have little or no control.

Damage or loss of assets	Health	Death and funeral	Income protection	Professional liability
• Vehicle • Accident • Household • Home-owner	• Medical • Dreaded diseases	• Funeral cover • Credit life • Life insurance	• Temporary illness • Disability • Retrench-ment	Eg health-professional insurance

See chapter 4: **INSURANCE TO PROTECT**

Financial advice and who to turn to

Most people, at some point in their lives, will require financial advice. This could be to affirm or expand a plan you have developed or to help with a specific transaction or problem. In other cases, you have to use an agent if you want to invest in a specific product.

When it comes to getting financial advice, there is normally no shortage of people willing to offer their views. But who should you turn to, who should you trust, and what is their role? The table on the next page sets out the different role players, what you can expect from them and how you can use them.

Selecting the right partner

Once you have identified the need for one or more advisors, make sure you partner with people who you feel comfortable with. Financial advice and planning is a long-term journey.

You also need to check their credentials to make sure you are dealing with someone reputable. If you can, get references from people who have worked with them before.

Advisor fees or commissions

When using a financial advisor, be aware of the fees or commissions applicable and choose a compensation model you are comfortable with. In SA, the commission model is the more common one, but fee-based advisors also exist. The maximum rates that can be charged are legislated and you can negotiate rates.

Commission only: This is the traditional way that advisors have been remunerated. It includes upfront commissions and ongoing yearly or trail fees on investments and policies.

Fee only: More and more advisors are starting to charge for their services, regardless of what products are sold as a result of their advice. They can charge fees by hourly rate, per job or by agreed retainer. Financial planners that work on fees only are often referred to as fee-only advisors.

Fee and commission: This is a combination of both.

Overview of different advisor types in South Africa

TYPE OF ADVISOR	WERE TO FIND?	TYPE OF ADVICE / PRODUCT FOCUS	GOOD TO KNOW
Relationship or branch banker	Your bank	Retail investment products (savings, call, fixed and notice deposits).	• Most banks have simplified their investment offerings to such a degree that you can easily compare products, find what you need and invest digitally, without the involvement of a banker.
Wealth manager	Your bank	Full range of investment products, incl offshore investments.	• Typically reserved for affluent and high-net-worth clients. • Will call on additional specialists where required.
Stockbroker	Your bank Search JSE for accredited brokers: https://www.jse.co.za/find-a-broker-institution	A specialist in equity, debt and derivative markets will trade on your behalf according to agreed mandates.	• You do not need a stockbroker to invest in the stock market. Consider online trading platforms (self-managed) or investing in unit trusts as an alternative. • Depending on the mandate, stockbrokers will charge a stockbroking fee to manage your portfolio.
Financial advisor – independent	Financial Planning Institute of South Africa (FPI) https://www.fpi.co.za	Holistic financial planning advice. Accredited* for specific categories: • Employee benefits (medical, pension) • Life and disability insurance • Local and offshore investments • Pre- or postretirement planning • Estate planning and wills • Tax assistance	• Use if you are struggling to prioritise your financial goals, need a plan for where and how to save, or want help with investment management. • Always check the qualification level – certified financial planner (CFP) is the highest designation and requires a minimum of three years' experience. • Negotiate costs up front – advisors operate on either a fixed fee, commission or a mix of the two. • Tied agents are more limited in their scope and typically favour the products of the company they work for.
Financial advisor – tied agent	Your bank Life insurers		

** Check the FPI for accreditation levels*

Overview of different advisor types (continued):

TYPE OF ADVISOR	WHERE TO FIND?	TYPE OF ADVICE / PRODUCT FOCUS	GOOD TO KNOW
Insurance agent – independent	https://www.brokerdirectory.co.za/	• General insurance (personal and commercial) • Specialist insurance • Holistic risk assessments	• Dealing with the insurance company directly is good for basic insurance needs, such as vehicle, household or homeowner insurance. • Insurance advisors on the other hand can help finding you the best deal and doing a full risk assessment to guide the type and level of cover you should consider. They are best positioned to help with more specialised insurance needs and will help with claims. They charge a fee or commission.
Insurance broker	• Banks • Insurance companies.		
Tax consultant, accountant or lawyer	• Best to ask for a referral.	• Advice on how to structure affairs in a tax-efficient way. • Help with setting up structures (trust). • Administration of wills, execution of estates.	• Fee-based.
Robo-advice	• Your bank • Life companies • Fintechs	• Retail investment products, unit trusts and life policies.	• Not ideal for complex needs, high-value investments or highly personalised advice. • It is free. • You can play with it without taking up any products.

Commonly used investment terms

Financial terms

Advisor commission is payable to your financial advisor when you buy certain financial products. Legislation in SA allows for two types of commission, and advisors can charge either one or both of these fees. The first type is a premium- or contribution-based commission (maximum 3-5% of your contribution), which is charged monthly or yearly, but it can also be discounted over the expected term and paid upfront. The second type is a fund-based commission, also referred to an as 'yearly advice' or 'trial fee, which is calculated as a percentage of your total accumulated money (typically 1% per year) and paid monthly to your advisor. Commission is negotiable.

Advisor fee is an alternative to advisor commission and is payable to your financial advisor based on their services given, regardless of what products are sold as a result of their advice. They can charge fees by an hourly rate, per job or by agreed retainer.

Asset allocation refers to how an investment portfolio is constructed across the different asset classes (cash, equity and property). A well-balanced investment portfolio will be diversified across asset classes because this will expose the portfolio to any growth potential in the market, while offering protection against a drop in the value of the asset by removing the risk associated with being exposed to only one asset class. As each asset class has a different associated risk, your financial risk profile, goals and objectives are important factors to determine the amount of exposure a portfolio has to each asset class.

A bond in the investment world is a fixed-income instrument where an investor lends money to a borrower (typically corporate or governmental). Companies, municipalities, states and sovereign governments use bonds to finance projects and operations.

Compound interest is calculated on the principal amount of the investment and also on the accumulated interest of previous periods and can thus be regarded as "interest-on-interest".

Dividend is a payment a company makes to its shareholders and typically represents a portion of a company's after-tax earnings that the directors have decided to pay out rather than to keep in the company.

Effective annual cost (EAC) is the total cost per year that reduces an investment's total return and relates to all administration fees, platform fees, product fees, advisor fees and transaction costs. This is a key piece of information to consider before investing.

Effective interest rate takes into account compounding periods. For example, if an investment pays 6% nominal interest yearly and compounds semi-yearly, an investor who places R1 000 in this investment will receive R30 of interest after the first six months and R30.90 of interest after the next six months (R1 030 x 0,03). In total, this investor receives R60,90 for the year. In this example, while the nominal rate is 6%, the effective rate is 6,09%.

Equity represents a 'share of ownership' in a company that you can buy. If you own 10 shares in a company that has 100 shares, you own '10% of the equity in the company'. Shares are considered a riskier asset class because share prices are open to large movements in the stock market daily, so you can experience large gains or losses. This is referred to as 'volatility'.

Exchange-traded funds (ETFs) invest in a specific theme or sector. For example, a 'top 40' ETF invests in the biggest 40 companies on the JSE. If you buy this ETF, you effectively become a shareholder in the biggest companies in South Africa. ETFs differ from unit trusts in that they can be traded during a trading day at the ruling price, whereas a unit trust is traded at a closing price on the specific day.

Inflation in South Africa is measured using the consumer price index or CPI, which is the average spending or living costs of a person. Inflation is calculated by measuring the rise in the price of this 'basket' over 12 months. This is always expressed as a percentage.

Income funds are a type of unit trust that invest exclusively in a combination of bonds, money market instruments and other interest-bearing instruments. They generally do not invest in asset classes such as shares or property (although there is a certain type of income funds that does). These funds tend to give you an 'enhanced' cash-like return, so they try to produce returns that beat what you would normally get in a traditional money market fund.

Investment time horizon is the amount of time you wish to invest for. It can be days, months or years.

Money market accounts are offered by banks and typically pay a higher interest rate than a savings account. Your money is held at the bank (which is different from a money market fund).

Money market funds are offered by various investment managers where multiple investors' money is pooled together in a regulated collective investment vehicle (like a unit trust). This pool of money is then invested in various money market instruments that is not limited to a single bank.

Nominal return is the amount of money an investment generates before factoring in expenses such as taxes and investment fees, and adjusting for inflation.

Real estate investment trusts (REITs) offer investors exposure to real estate properties and mortgages through a JSE-listed instrument for investors who want exposure to the property market without a large initial capital outlay.

Real return is the return you receive after the rate of inflation is taken into account. If an investment gives a nominal return of 6% in a given year and the rate of inflation is 4%, then the real return is 2%.

Required rate of return is a mathematical calculation and is often compared to inflation as 'real return', for example to retire on R30 000 per month your available capital will need to generate say the inflation rate plus 2% per year.

Risk capacity is the level of financial risk you can afford to take without jeopardising your goals and objectives.

Risk required is the financial risk associated with the return you need to achieve from the financial resources you have.

Risk tolerance is the level of financial risk you are comfortable with regarding your investment.

Simple interest is calculated on the principal (or original) amount of a loan or investment.

Time value of money is the current value of your money in the future after inflation has been taken into account. For example: I have R1 000 today. If inflation is 4%, my money will be worth R822 in five years' time if I don't earn any growth on it.

Total expense ratio (TER) represents the cost of running certain investments like unit trusts or exchange-traded funds but excludes certain other charges such as transaction costs.

Total investment charges (TIC) are effectively the costs of managing the fund, plus administrative and transaction costs.

Unit trust: Investment managers use a pool of money from investors to buy shares, property, bonds, cash, or a combination of these on local and/or foreign markets, depending on the mandate of the unit trust. Each unit trust is split into units. When you invest in a unit trust, you buy units in that specific unit trust. Your money is combined with that of other investors who have bought units in that unit trust and the value of the unit trust will fluctuate with the values of the underlying shares, property, bonds or cash combination.

4 INSURANCE TO PROTECT

Understanding the role of insurance

For most of us, insurance is considered a grudge purchase or necessary evil. After all, unless something bad happens, we might never see the benefit of the premiums we pay. And if it is just you on your own, you have not accumulated any real assets and do not have much to worry about in life – then why bother?

The reality is accidents, disasters and illness do happen, and if you are not adequately insured, an unexpected event of this kind could not only destroy your existing financial position but threaten your livelihood. What is more, insurance provides not only the necessary protection, but can also act as a savings vehicle and a tax-efficient way to build long-term wealth.

As such, insurance forms an integral part of any comprehensive financial plan and often acts as an important foundation.

Financial planning framework:

Tier 1:
Make provision for events in your life over which you have little or no control.

Damage or loss of assets	Health	Death and funeral	Income protection	Professional liability
• Vehicle • Accident • Household • Home-owner	• Medical • Dreaded diseases	• Funeral cover • Credit life • Life insurance	• Temporary illness • Disability • Retrench-ment	Eg health-professional insurance
INSURANCE TO PROTECT				

See chapter 3 for the full financial planning framework.

What should you insure?

You can insure almost anything under the sun, but certain things are more critical than others.

As a general rule, you need insurance to:

1. protect your life;
2. protect your ability to earn an income; and
3. keep a roof over your head.

You may also be required by law or a service provider to take out specific insurance. For example:

- To finance your car, banks will insist on vehicle insurance for the full value of the car.
- To operate as a medical professional, a lawyer or a financial advisor, you will have to take out professional-liability cover to protect you against claims resulting from injuries and damage to people and/or property as a result of the services you offered.

Purchasing the wrong insurance, overinsuring or doubling up on risks already covered by another policy is simply wasting your hard-earned money.

As you will see, the devil is in the detail and the next section explains the key principles of insurance, the more common types and what to look out for.

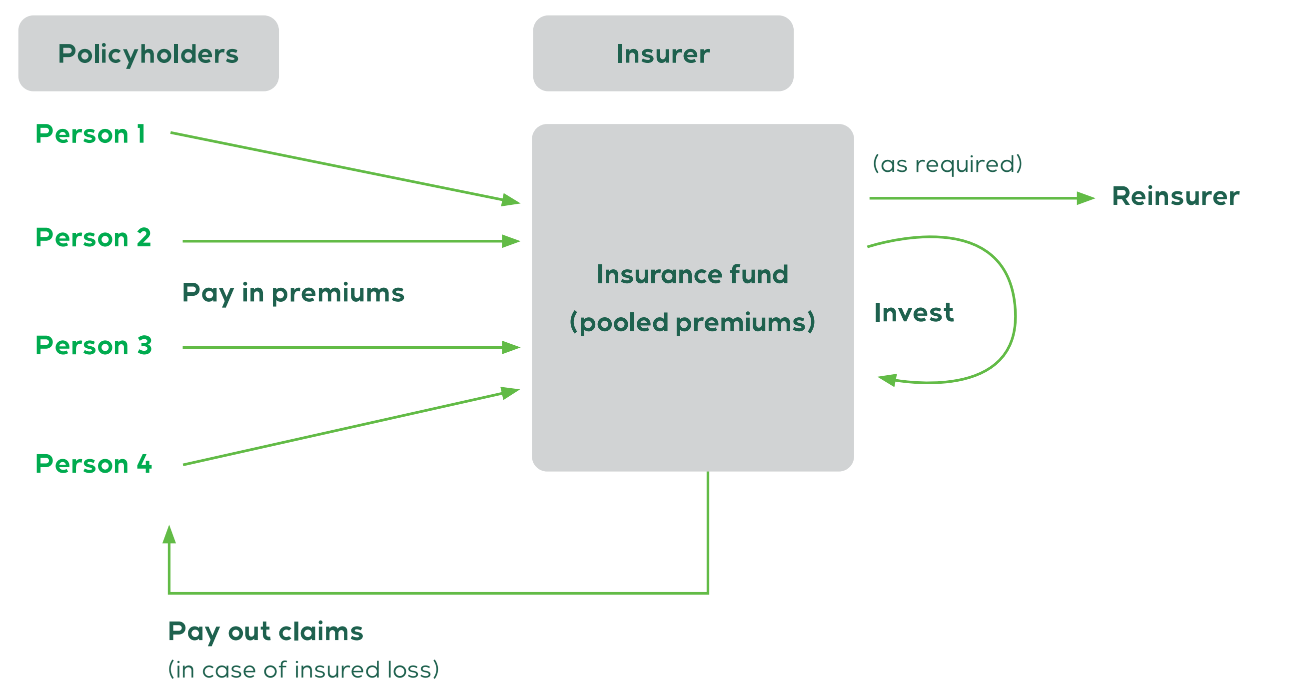
If you still feel unsure or your needs are more complex, you may want to consult an accredited financial advisor, who is best equipped to do a full assessment of your risks and recommend the level and type of insurance you should consider for your circumstances.

Key insurance concepts unpacked

How does insurance work?

Insurance works on the basis that small amounts of money are collected from many people (ie policyholders) and this money is pooled to pay for the losses (claims) that this group will incur. Insurers work on statistical assumptions around how many claims they will likely have to pay and, if necessary, reinsure parts of their book with other insurers.

INSURANCE INDUSTRY BUSINESS MODEL



Insurance process at a glance

1. **You identify the risk that you would like to insure** – eg damage to or loss of your car.

2. The **insurance company evaluates your risk profile based** on a certain set of variables (such as age, gender and location), which statistically correlate with actual losses incurred. **Your risk profile combined with the type and value of the asset will determine the monthly premium.** The more sophisticated the model and the more variables being considered, the more personalised the rate will be.

3. **The insurance company will give you a quote,** which stipulates the monthly payment **(premium),** the amount you want to insure **(policy limit** or insured amount), any specific deductibles payable before a claim is paid **(excess),** any **specific exclusions** and any other rules or offers, such as a cashback that form part of this quote.

4. **You accept the quote and enter into a contract.** Your insurance policy is valid from the date stipulated on the contract (typically the date on which you sign the contract, it could also be the date when the insurer gets the first premium).

5. **You pay your monthly premiums**, which are pooled together with those of all other policyholders who have taken out insurance with the same insurance company.

6. **a) If you make a claim** that falls within the policy criteria, your insurer will pay out for the loss. The money comes from the pooled money.

   or

   b) If you don't make a claim, you won't get your money back unless the policy offers a no-claim bonus.

Difference between insurance

While these terms are used somewhat interchangeably, they do have slight technical nuances:

SHORT-TERM INSURANCE	LONG-TERM INSURANCE
For events that might occur (eg fire, accident).	For events that will occur (ie death).
Makes good for actual losses incurred.	Pays a specific, preagreed sum.
Short-term horizon.	Generally longer term horizon.
Relates to general insurance, eg vehicle, medical and house insurance.	Relates to life cover.

In other words, short-term insurance offers financial coverage for the losses of an uncertain or anticipated event. Long-term insurance provides benefits and secure financial coverage for the losses for a certain event. For purposes of this document we may use insurance as the encompassing term for both.

Key role players in the insurance industry

Financial advisor
Agent that helps you with a needs analysis, getting and comparing quotes from one or more insurers, the administration of the policy and the claims process.

Insurer
Offers the actual insurance policy, determines the premium and cover offered, and compensates you for the loss events.

Reinsurer
Reinsurers effectively provide a form of insurance to the insurer to reduce risks that are too large for the insurer to handle.

Common insurance contract terms

The following terms are usually used in an insurance quote or contract and are important to study so you know exactly what you are covered for.

TERMINOLOGY	INSURANCE
Premium	A policy's premium is its price, typically expressed as a monthly cost. The insurer determines the premium based on your or your business's risk profile, which may include creditworthiness.
Policy limit	The policy limit is the maximum amount an insurer will pay under a policy for a covered loss. Maximums may be set per period (for instance yearly or for a policy term), per loss or injury, or over the life of the policy, also known as the lifetime.
Lifetime maximum	Maximum amount an insurer will pay over the lifetime of the policy.
Deductibles or excess amounts	The first amount you must pay out of your pocket before your insurer pays your claim. It serves as a deterrent to large volumes of small and insignificant claims. Excess amounts can apply per policy or per claim, depending on the insurer and the type of policy. Policies with very high deductibles are typically less expensive because the high expense out of your pocket generally results in fewer small claims.
Covered events	Specific loss events that you are covered for.
Effective date	The date from which you are covered (often corresponds with the policy acceptance date).

Overview of insurance types

There is a wide range of different insurance products and types of cover available. The following lists the most common types of insurance that you may want to consider as part of your financial plan. The details for each are unpacked in the following sections.

SHORT TERM AND GENERAL	
Homeowner cover	Can be combined under a personal-lines policy
Motor insurance	
Household	
Travel insurance	

LONG-TERM INSURANCE AND MEDICAL COVER
Health or medical insurance
Disability
Life cover (incl credit life)
Funeral cover

BUSINESS/PROFESSIONAL INSURANCE
Key-man insurance
Buy-sell policies
Professional liability
Business assets (stock, buildings, vehicles and machinery)
Employer's liability
Company group risk and retirement

SPECIALIST INSURANCE
Insurance for any items, events or industries that are considered unique or special circumstances, for instance agricultural, fine art and animals.

Short-term insurance

Types of short-term insurance

Homeowner's cover

Covers your home against damage to the building, fixtures and fittings caused by fire, explosion, theft, flood, storm and other acts of nature.

Optional extra cover could include the following:

- Flood damage caused by burst geysers.
- Personal-liability cover should someone claim from you as a result of an insured event.
- Fire-extinguishing as well as any fire-fighting costs incurred.
- Alternative accommodation if the building becomes uninhabitable.

Household insurance

Covers valuables inside your home, such as your furniture, carpets and electronic devices, against theft and damage.

All-risk cover insures those items you take out of your home, such as your clothing, sunglasses, briefcase or handbag.

Optional extra cover could include the following:

- Loss of important documents.
- Cost of data recovery should your computer crash.
- Cost of replacing your lost or stolen credit or debit cards.

Motor insurance

Covers your private cars, motor cycles, boats, caravans, trailers and small watercraft.

Optional extra cover could include the following:

- Costs of breakdowns, emergency repairs as well as replacing the keys and locks of your vehicle.
- Tyre-and-rim warranty, an extended warranty and/or a preowned-vehicle warranty.
- Car hire options should you need a replacement vehicle while yours is being repaired.
- Access to home, road and medical assistance services 24 hours a day, all-year round.

Travel insurance

Cover for a range of travel, medical and related risks, such as the following:

- Emergency medical expenses
- Journey cancellation and shortening your journey
- Repatriation and evacuation
- Accidental death or accidental disablement
- Personal liability
- Loss of luggage, documents and cash while travelling
- Hijacking, hostage and wrongful arrest
- Travel supplier insolvency

Homeowner's cover, household and motor insurance can be combined into one policy to get cheaper rates – this is referred to as personal-lines insurance.

How to get the optimal cover

First of all you have to decide what to insure. As a rule anything you have to have but cannot afford to replace without serious repercussions to your financial position and future financial health is worth insuring.

Often the need for insurance is triggered by a specific event (for instance buying a new car or home), but as you accumulate assets you may want to take stock of your possessions more systematically, by listing what you own and putting a value to each.

Combining individual policies for your car, home and household goods into a single personal-lines policy may unlock some saving.

What value to insure?

- Make sure household and other personal items are insured at their replacement value.
- Motor vehicles should be insured at their retail value.
- Your home should be insured for the estimated replacement value (that is the cost to rebuild it if it is destroyed by a fire), not the market value (ie price you would get if you were to sell).

When taking out a new policy, it is always a good idea to compare quotes from two or more insurers. You can go directly to the insurance companies or use a financial advisor. There are also websites that can source and compare quotes for you.

Equally, if you have an existing policy, you may want to make sure you are not overpaying by getting an alternative quote from time to time.

But how do you then compare two different quotes?

The key is not to look at the premiums only (and potentially pick the lowest-cost product), but to assess all the factors that affect the premium and understand what trade-offs you are making.

COST VS BENEFITS TRADE-OFFS

Remember to review your policies yearly and adjust the values of your insured assets as needed.

Long-term insurance

Types of long-term insurance

Life insurance

Life cover provides financial support (in the form of a lump sum payment) to surviving dependants or other beneficiaries after the death of the insured.

Can be used for the following:

- Provide capital to maintain standard of living for survivors, if any.
- Estate administration and/or estate duty costs.
- Settling of debts and liabilities.
- Funeral costs.
- Income for dependants.
- Children's education.
- Maintenance.

Severe illness and disability cover

To provide for costs for surviving illnesses or disability.

Can be used for the following:

- Settle debts.
- Hospital and recovery costs.
- Time out from work.
- Provide money when you cannot earn an income.
- Provide money to help with payments for help when you cannot do normal daily activities.

Funeral cover

Funeral cover is a form of insurance that pays a specified amount of money if someone dies, ensuring that the costs of a funeral will be covered so that family members do not have to struggle financially at this difficult time.

Before you take out funeral cover, do check if you are not already covered as this type of insurance is often embedded or offered as part of other products – such as banking bundles, life cover or employee benefits.

Life insurance – what you need to know

Life insurance is something you can add to your financial plan if you want to provide security for your loved ones. Proceeds from a life insurance policy can pay final expenses, eliminate outstanding debt or cover day-to-day expenses. Whether life insurance is a smart investment may depend on what you need and want a policy to do for you.

What factors influence your life insurance premium?

Age: Life insurance cover is generally much cheaper when you are younger and healthier.

Health: If you are overweight or have a pre-existing health condition, you may pay a higher premium than the average person, due to your risk profile.

Smoking: Smokers are likely to incur higher life insurance premiums than people who do not smoke. But most life insurance providers wil reduce your monthly premium if you stop smoking.

Profession: If you are a firefighter or work in the mining industry, you may pay a higher premium compared to someone working in an office environment, as some life insurance providers charge more if you have a high-risk job.

Lifestyle: Life insurance premiums are usually higher if you engage in high-risk activities such as skydiving or extreme sports.

Whole versus term life

The differences between these two types of life cover are often not clearly understood:

Term-life insurance offers cover at a fixed rate for a temporary period of time, such as 10, 15 or 20 years. If you pass away during the selected period, your beneficiaries will receive a lump sum.

Whole-life insurance offers lifelong coverage and includes an investment component.

	TERM LIFE	WHOLE LIFE
Cost	• Lower cost, as policy may not have to pay out (only if you die within the stipulated period).	• Higher cost, as policy will always pay out (either on your death or when you give the policy up).
Cover	• Cover at a fixed rate for a temporary period of time, say 10, 15 or 20 years.	• Lifelong cover • Payout of the cash value if the policy is cancelled or given up.
Beneficiaries	• Allows you to nominate your beneficiaries.	• Allows you to nominate your beneficiaries.
Suitable for	• Getting protection for your dependants while still accumulating wealth. • Insuring your life during the term of your home loan.	• If you think you will need life insurance for more than 20 years. • Younger people who benefit from somewhat lower premiums, given their risk profile. • For tax purposes or ability to borrow against the cash value of the policy.

Additional benefits and uses for life insurance

Most people use life insurance to provide money to beneficiaries who would suffer financial hardship when the insurer dies. But for wealthy individuals the tax advantages of life insurance, including tax-deferred growth of a cash value, tax-free dividends and tax-free death benefits, can provide additional strategic opportunities.

Funding retirement

Policies with a cash value or investment component can provide a source of retirement income. This opportunity can come with high fees and a lower death benefit, so it may be a good option only for individuals who have used the maximum of their other tax-advantaged savings and investment accounts. The pension maximisation strategy described earlier is another way life insurance can be used to fund your retirement.

Avoiding taxes

The death benefit of a life insurance policy is usually tax-free. Wealthy individuals sometimes buy permanent life insurance within a trust to help pay the estate taxes that will be due when they die. This strategy helps to preserve the value of the estate for their heirs. Tax avoidance is a law-abiding strategy for minimising your tax liability and should not be confused with tax evasion, which is illegal.

Borrowing money

Most permanent life insurance accumulates cash value that the policyholder can borrow against. Technically, you are borrowing money from the insurance company and using your cash value as collateral. Unlike with other types of loans, the policyholder's credit score is not a factor. Repayment terms can be flexible, and the loan interest goes back into your cash value account. But policy loans can reduce the policy's death benefit.

Types of life cover for businesses and professional firms

Businesses or professional firms may also need to take out life cover to protect the business against the consequences of the death (or disability) of one of their members (employees, owners or co-owners). The following are types of life cover specifically designed for business.

Key-person insurance

A key person is considered an employee in the company who is critical to the sustainable operations of the company, and whose sudden departure in the case of death could result in temporary loss of revenue and disruptions.

Under a key-person life insurance policy, the business owns the policy, pays the premiums and is the beneficiary. If a key person dies, the business then collects a death benefit.

How it helps the business:

- The lump sum received by the business can be used to replace lost revenue as a result of temporary business disruption (orders not being filled or clients cancelling contracts).
- It can also be used to accelerate the search for a replacement or to attract the required level of skills.

Buy-and-sell agreements

The purpose of a buy-and-sell agreement is to provide the surviving co-owner(s) with cash to buy the interest of a deceased co-owner.

According to the agreement, each co-owner takes out life cover on the other co-owner(s)' lives. The life cover pays out on the death of a co-owner, which funds the purchase of their interest by the surviving co-owner(s).

Disability cover can also be included to fund the buyout of a disabled owner's share of the business.

Business contingency insurance

This is advisable for businesses applying for a business loan where the business owner signs personal surety. Without business contingency insurance, the estate can be placed at the mercy of creditors if anything should happen to the business owner.

Business contingency insurance is a type of life cover for the business, covering the death of the owner. It pays a lump sum tax-free amount to your business when you die. This payout can be used to pay a loan and any other debts the business may have.

Medical aid or health insurance

Both are types of insurance that cover you for medical expenses in case of medical procedures, hospitalisation, routine check-ups and chronic illnesses. There are however some key differences.

	MEDICAL SCHEME	MEDICAL/HEALTH INSURANCE
Cost	• More expensive (given better cover) • Charges standard fee for benefit	• Less expensive • Risk-based pricing
Regulated by	• The Medical Schemes Act	• The Short-term Insurance Act
Accessibility	• Open enrolment (must accept anyone who wishes to join the scheme,	At insurer's discretion.
Cover	**More comprehensive:** • Must cover all prescribed minimum benefits (270 life-threatening medical emergencies and 26 chronic conditions). • Covers the specific costs of treating these illnesses and usually reimburses the providers directly. • Does not include death or funeral cover.	**Less comprehensive:** • Choose from a variety of products such as hospital cash plans, gap cover, medical travel insurance and primary healthcare. • Tend to pay out fixed lump sums irrespective of the service offered by hospitals, specialists and other providers of healthcare services. • Typically provide for loss of income and contingency expenses associated with a

How to access insurance products

Insurance financial advisor

You get both independent (non-captive) financial advisors who represent a range of insurance companies, and so-called tied or captive agents, who represent a specific insurer.

Financial advisor pricing, despite the fact that there is a middle man involved, is often cheaper than the direct model, as brokers have access to discounts that the general public does not see.

Insurance financial advisors are trained to assess risk and advise you on the right solution.

Financial planner

A financial planner is a qualified investment and insurance professional who helps individuals and companies with financial plans to meet their long-term financial objectives. They do it in terms of their licencing category and must be registered with the Financial Services Conduct Authority. They must show a licence number and other information as evidence. Financial planners can offer a specific service in terms of their licencing or they may specialise in a specific service, for instance investments only.

A financial planner assesses your position and builds a comprehensive financial plan that incorporates cashflow management, retirement planning, investment planning, risk planning, insurance planning, estate planning and business succession planning (for business owners).

The planner selects solutions from an array of approved product and service providers, ensuring that any preferential competitive pricing and benefits are passed on to you.

Direct insurance

You can get quotes directly from the insurer through a digital or contact centre channel.
In SA many of the insurance companies offer direct insurance.

Embedded insurance

Certain insurance can be bundled in the price of a product you buy or is offered as an optional extra.

Examples:

- Credit cards often come with embedded travel insurance and purchase protection.
- When you take out a personal loan you may be given the option to take out a credit life policy at an extra cost.

Your employer

Most larger employers offer certain insurance benefits as part of your total package.

Example:
Life and disability cover can be part of the group scheme of your company (if you are employed) and can offer investment as well as life, disability and funeral benefits at cheaper rates.

Medical aid is often compulsory for employees and the health scheme is determined by the company. The employee can choose the specific plan and take out additional health insurance.

Insurance triggers (life events)

While your insurance portfolio should be reviewed regularly, certain life events trigger additional insurance needs or changes to your risk, and warrant immediate action. Below are some of the more common life evens and how these could affects your insurance needs.

Life events

Financial independence | Marriage (or divorce) | New home | New job | Birth of a child | Child learning to drive

Marriage: What to consider	
Medical cover	Assuming both parties already have cover, you may wish to combine the cover into one of the two schemes.
Short term	If you are moving in together, make sure you update your household contents for the combined value. Also check that you don't end up being double-insured, and cancel the policies that are no longer relevant.
Long term	If you have a life policy, you may want to update the beneficiaries. If you do not have a life policy, you may want to take out cover to protect your spouse.
Other	This is also a good time to think about creating a will or updating your existing one.

New home: What to consider	
Short term	Review the value of your household contents, especially if you end up buying more items to furnish your new home. Homeowner's cover is sometimes compulsory if the property has a bond but is really a must-have for all homeowners.
Long term	Term-life insurance is recommended if you have dependants who will either be left to pay the debt or sell the house in case something happens to you.

New job: What to consider	
Medical cover	Does your employer offer medical aid? If the scheme is better than the one you are currently on (for instance as a dependant of your spouse) you can consider switching the entire family across.
Long term	Review what group benefits your employer offers. It may come with life and disability cover included, in which case you must make sure that you are not overinsured.

Birth of a child: What to consider	
Medical cover	Make sure the new member of your family is added to your existing policy and review the plan you are on.
Long term	If you have a life policy, you may want to update the beneficiaries. If you do not have a life policy, you may want to take out cover to protect your spouse or legal guardian, especially if you are the main income earner.
Other	This is also a good time to think about creating a will or updating your existing one.

Child learning to drive: What to consider	
Medical cover	N/a (assuming your child already has adequate medical cover).
Short term	Check the value of your car insurance and add your child as an additional driver to the policy. In case of a separate car, make sure their car is added to your policy or otherwise insured.
Long term	This is a good time to think about disability or accident cover for your child.

Frequently asked questions

Q: Can I insure an item or event twice with different insurance companies and then claim against both to get double the benefit?

You can insure the same interest against the same risk with two or more insurers, as long as the total of all the insurance is not more than the total value of the insured asset or event.

When the same risk is insured by two overlapping but independent insurance policies, this is referred to as **dual or double insurance.**

Whether done intentionally or in error, most policies have a 'contribution clause', which means that if an insurer pays more than its proportionate share to the insured, the insurer has a right to reclaim a contribution from the other insurers. This is because the insurer has the right to pay only its proportionate share of the loss.

If you can prove that you have paid premiums for dual insurance, you can ask a refund of the duplicate premiums, as you would not have the benefit of twice the insured value.

Q: I forgot to or couldn't pay my premium. Does this mean I am no longer insured?

According to the policyholder protection rules that came into effect in January 2019, insurers must give policyholders written notice that they haven't received the premium within 15 days of becoming aware of the non-payment.

And from the second month of the policy being taken out, they must give clients the benefit of a **grace period of at least 15 days** after the due date in which to pay, during which time the policy does not lapse.

Note: The premium due date, which is usually the first of the month, is not automatically the same as the debit order date.

Q: I am in my 20's, own very few assets and have no dependants, why would I need insurance?

You may be young and have few assets, but the assets you have may be critical to your financial well-being. For example, if you own a car, and the car is required for work, you want to make sure you can replace the car in case of an accident.

You may also be surprised at the replacement value of your wardrobe and other household goods if these were to be stolen or destroyed.

Lastly, medical cover is critical for any person – while you are less likely to die, you may be at a higher risk of injury as a result of activity and anyone could become victim of a chronic or temporary illness and disability at any stage.

So, in short – you are never too young to protect yourself against the three main risks mentioned earlier in this chapter.

Q: Can I change my insurance policy once I have bought it?

Yes, you can.

In the case of short-term insurance you can add additional items or adjust the amount insured at any time. This will of course change your premiums.

For long-term insurance, you can change beneficiaries, as well as the amount that you wish to insure.

5 INVESTING FOR GROWTH

Creating a balanced investment portfolio

This chapter will build on some of the investment principles and foundations laid in chapter three and will focus on the second tier of the financial planning framework.

Financial planning framework:

Tier 2:
Save money for use at specific periods in your life and invest for growth as part of a planned investment strategy.

Medium to long term	
• Investment portfolio catered for your specific risk profile, life goals and investment horizon. • Retirement planning.	
Short term	
Emergency fund	Specific, near-term objectives
INVESTING FOR GROWTH	

See chapter 3 for the full financial planning framework.

We will discuss some of the investment types, their pros and cons and when to consider them in more detail. The intent is not to give you a ready-made financial plan, but to make you aware of the choices available, highlight some of the more common pitfalls and stimulate your interest to learn more about some of these topics.

Balancing short-, medium- and long-term needs

A comprehensive and balanced investment strategy should seek to balance short-, medium- and long-term objectives and attempt to tackle them in parallel.

For example: Instead of focusing exclusively on the short-term needs until you have more money available to deal with the longer-term objectives, it would benefit you to cut back on short-term goals or revisit your budget to free up more savings to at least partially contribute to the long term.

The three investment horizons can be summarised as follows:

	SHORT TERM	MEDIUM TERM	LONG TERM
Time frame	0-2 years	3-5 years	5-30 years or more
Used for	• Holiday, wedding. • Deposit for car. • Emergency cash or cash for short-term use.	• Starting a business. • Paying for education. • Deposit for a house.	• Retirement. • Wealth creation.
Suitable type of investments*	• Retail deposit (notice or fixed). • Money market fund (unit trust). • Income funds (more than six months).	• Retail deposit (fixed). • Income funds (unit trusts). • Balanced funds (multi-asset-class unit trusts). • Equity funds (low to medium risk).	• Tax-free investments. • Unit trusts or ETFs. • Retirement annuities. • Shares and derivatives. • Physical property. • Endowment. • Living annuities.
Investment objective	Protect capital while unlocking (some) growth.		Benefit from compound interest and growth in share value of the investment.
Important to note	At least a portion must be available immediately.	Capital might be locked in for a set period.	You must diversify and have a mix of assets.

* Not exhaustive. Note investment types have been placed into their predominant category, but could stretch across more than one category, for instance:
• Tax free-savings are generally considered long term, but they may be applicable to the medium term too.
• Derivatives are typically considered long term, but a put option for protection from a market fall can be used in the medium term.

Bank deposits

Bank deposits are often considered the easiest and most accessible starting point for anyone setting out on their money management journey, but typically also form part of a more developed investment portfolio.

They have a number of advantages over other investment types, as set out below.

Main benefits of bank deposits

Low cost	• Usually there are no fees charged, but always double-check with your service provider for the product you chose. • Penalty fees apply for early withdrawal requests (where applicable).
Low risk	• Your capital is guaranteed, as is the interest rate in a fixed-term deposit.
Easily accessible	• Most banks allow you to open the deposit account online, or visit a branch or contact your bank's contact centre. • Retail deposits typically start from minimum balances of only R250; savings pockets have no minimum balance.
Highly liquid	• You can access your cash (within the constraints of the product you have chosen) without first having to find a buyer or worrying that you are selling at the wrong time in the cycle.

Bank deposits can be split into savings pockets, call accounts, notice, fixed-term and hybrid investments – all of which talks to the accessibility of the money once placed into a bank deposit account.

Overview of types of bank deposits

BANK DEPOSITS	KEY FEATURE	IDEAL USE
Savings pocket	• Pockets are interest-earning sub-accounts linked to your main transactional account. • You have immediate access to your cash. • You can name pockets in line with your savings goal.	• For parking small amounts of savings temporarily. • Money to be used for a specific short-term objective. • To accumulate savings over time until a balance is enough to warrant investment into other investment types.
Call or money market account	• Very similar to a savings pocket. • Interest-earning transactional account with money available immediately or overnight (24 hours).	• For cashflow management – storing of surplus cash until required. • For emergency money; when you may need money on fairly short notice.
Notice deposit	• Notice periods range between 32 and 90 days. • You can add to your investment balance at any point.	
Fixed-term deposit	• Term ranges from 1 to 60 months (five years). • Additional contributions during the term of the loan are not possible (but you can capitalise the interest you earn). • Generally offers the best interest rates.	• For amounts greater than R1 000. • For very specific investment goals with a fixed target date. • As part of a holistic investment plan, and as an alternative to unit trust income funds.
Hybrid deposit	• As the fixed-term deposit, but gives access to a portion of the capital during the investment period.	

Unit trusts, exchanged-traded funds (ETFs) and shares

In South Africa, there are over 40 ETFs and more than 1 000 unit trusts to choose from.

ETFs are offered by a number of companies in SA, including Satrix (satrix.co.za); etfSA (etfsa.co.za); CoreShares (coreshares.co.za); and EasyEquities (easyequities.co.za).

Unit trusts are offered by asset management companies such as Nedgroup Investments, Allan Gray, Coronation or Satrix.

Unit trusts and ETFs have many similarities and ultimately try to achieve the same thing: giving investors easy access to a well-diversified portfolio by pooling the money of many investors. Depending on the fund's mandate and objective, they can invest in shares, cash, property and bonds, both locally and offshore.

Unit trust vs ETF vs shares – which one should you choose?
Given many similarities, how then do you decide between investing in a unit trust or ETF: The main differences lie not in the investment performance, but in the way you access the investments and the underlying cost you incur.

For example, if you were to buy the Satrix Top 40 Unit Trust or Top 40 ETF (or even a portfolio of the Top 40 shares within the same weighting), your investment performance would be exactly the same.

However, from a tax perspective, unit trusts and ETFs are more efficient. Whereas the sale of directly owned shares immediately attracts capital gains tax (CGT), asset managers can rebalance the portfolio of a unit trust or ETF without the cost of CGT, which is triggered only on the sale of a unit.

The following table highlights some of the differences to consider, including the type of costs charged for each product. We include a share portfolio but often this is not ideal for the everyday investor.

	UNIT TRUSTS	EXCHANGE TRADED FUNDS (ETFS)	PORTFOLIO OF SHARES
Regulation	Collective investment scheme.	Collective investment scheme.	JSE
Structure	All assets held in trust.	All assets held in trust.	Shares directly held by the investor.
Listing on JSE	Not listed – price is calculated at the end of each trading day.	Listed – priced throughout the trading day.	Listed – priced throughout the trading day.
Management of the underlying portfolio	Actively or passively managed by an asset manager.	Typically managed passively.	Managed by the investor (you would need to monitor individual company performances).
Cost	• Management fee. • Platform fee (exception).	• Management fee. • Brokerage fee for trades (buy and sell).	• Management fee (if managed by a broker). • Brokerage fee for trades (buy and sell).
How to access	• With the help of a financial advisor. • Directly from the fund management company (manco). • Through a linked-investment service provider (LISP), ie an administration platform.	• Buy ETFs directly via a trading platform or a mandated stockbroker. • Through a LISP, ie an administration platform.	• Buy shares directly via a trading platform or a mandated stockbroker.
Advantages	• Investment can start from R500. • Easy to exit – money available within more or less 48 hours.	• Can be more cost-effective, but not always. • (Mostly) easy to exit – money available within five days (due to the JSE clearing timelines).	Only makes sense if you: • have a larger sum to invest; • have a keen interest and skill to understand company and stock market performance; • want to create a specific portfolio.

Provident funds, pension funds and retirement annuities

Saving for your retirement

Only a small percentage of South Africans are on track to retire comfortably. The reality is that most people must retire at some point, whether they like it or not. It is therefore crucial to start saving towards your retirement as early as possible.

You need a proper retirement plan so that you can maintain your standard of living once you have reached retirement. As a rule of thumb, you should consistently save between 15% and 20% of your gross salary (cost-to-company) between the ages of 20 and 60 to retire comfortably. The later you start saving, the larger the percentage you need to save.

There are several ways to build your retirement savings. This section explains the differences between pension funds, provident funds and retirement annuities, so you can make better and more informed decisions about your retirement planning.

Pension and provident funds are very similar and can be joined only through your company.

Retirement annuities are designed for people who do not have access to workplace funds or who want to contribute more than just their company savings.

See the table for more detail.

	PENSION FUND	PROVIDENT FUND	RETIREMENT ANNUITY (RA)
How to invest	• You can join only through the company that employs you (it's mandatory to join if the company offers one). • Save via monthly contributions from employer and employee (usually taken off your cost-to-company).	• Same as pension fund.	• Completely independent from your employer (suitable if you are self-employed or don't have access to a workplace fund). • Save via monthly contributions, which can be adjusted, paused or topped up with lump sum payments.
How money is invested	• Appointed trustees decide which funds to make available. • Members can then choose from the range of options offered.	• Same as pension fund.	• You can choose between a wide range of unit trust funds depending on your appetite for risk. The funds available are subject to limits according to Regulation 28.
Access on retirement	• Maximum of one third of your savings or fund value may be taken as a cash payout (taxable with certain tax benefits) at company retirement age. Full amount can be paid out if the fund value is below a certain limit (less than R247 500 in 2020). • The balance must be used to buy a compulsory annuity (living or life annuity).	• From 1 March 2021, the same rules as that of a pension fund apply, but you can take money accumulated before 1 March 2021 in cash.	• Same as for pension fund, but you can retire from age 55 onwards.
Access before retirement or when changing jobs	If you resign from a company, you can either preserve your retirement savings with that company or move it out to: • your new company's pension fund; • a preservation fund; • a retirement annuity fund; or • you can take the full fund value (or a portion) in cash, subject to tax.	• Same as pension fund.	• You will not have access to the money before age 55, other than in special circumstances, for example when you formally emigrate (subject to tax). • Changing jobs will make no difference to your retirement annuity, as it is independent of your employer.
Tax benefits	• The growth and income within your fund while you are a member of the fund is tax-free. Tax is payable only when you access your money. • Investors contributing to an RA are eligible for a tax deduction of up to 27,5% of their taxable income (to a maximum of R350 000 per tax year).	• Same as pension fund. • The tax mechanism is slightly different, but the outcome and overall tax deductibility is the same as described for the pension fund.	• Same as pension fund.

Preservation funds and post-retirement annuities

Life or living annuities are post-retirement income plans that you buy when you are ready to retire, while preservations funds are designed to receive lump sum benefits from a pension or provident fund when you have been retrenched, dismissed or have resigned from your employment before retirement.

Preservation funds

This is a retirement fund designed for people exiting their pension or provident fund before retirement.

If you want to preserve your capital you must transfer the full amount into a preservation fund. Your preservation fund can receive direct payments from another approved retirement fund only and you cannot make any additional voluntary contributions.

Or you may leave the money in your current retirement fund as a paid-up member. Often the fees are lower as they are negotiated at a fund level.

You can make one partial or full withdrawal before retirement. Thereafter you can access the rest of the money only at retirement.

If you move your retirement benefit from a pension or provident fund directly into a preservation fund, there are no tax consequences, making preservation funds tax-effective investment vehicles.

Life annuity

A life (or guaranteed) annuity is an insurance contract that promises to pay the pensioner for as long as they live, which means that the insurer bears the longevity risk. When the pensioner dies, the life annuity dies with him, meaning there will be no benefit for his heirs. If, at the time of purchase, you had chosen to include your spouse in the annuity, the spouse will still receive a percentage of your income after death.

Living annuity

On the other hand, a living annuity is a lump sum from your retirement fund that is invested into a unit trust platform or an insurance contract in your name. With a living annuity, you bear the investment, inflation and longevity risks.

Living annuities are more flexible and transparent and enable you to choose your investment strategy in line with your objectives. Legislation allows you to draw between 2,5% and 17,5% of the value of your investment each year, and this level can be adjusted every year.

When you die, whatever is left in your living annuity can go to your heirs.

Nedgroup Investments offers an innovative annuity called the Living Annuity Plus, which combines some of the best annuity features in one product – flexibility combined with an increased probability that your income will last for life.

Comparison of life annuities vs living annuities

	LIFE ANNUITY	LIFE ANNUITY PLUS	LIVING ANNUITY
Income for life guaranteed	✓	✓✗	✗
Flexibility to choose your level of income and how you invest your money	✗	✓	✓
The ability to leave an inheritance for your dependants on your death	✗	✓	✓
The option to transfer to another annuity	✗	✓✗	✓

It is not possible to transfer a life (or guaranteed) annuity to a living annuity as the former is an insurance policy whereas the latter is an investment-linked annuity. However, in terms of section 37 of the Pension Funds Act, investors can transfer a living annuity from one platform to another.

Tax-free investments

Tax-free interest income brackets*

SA offers two tax breaks with regard to interest income:

1 **Yearly interest exemption**

The total interest earned on any ordinary investment is tax-free up to the following thresholds:

- Younger than 65 years: R23 800 per year
- 65 years and older: R34 500 per year

For example, investing R300 000 at an effective rate of 7,5% for a year will yield interest income of R22 500, which is within the tax-free threshold.

2 **Tax-free investment**

All interest earned in a **tax-free investment** within the following capital contribution thresholds is tax-free:

- R36 000 per year (R30 000 in 2014/15 and 2015/16, R33 000 in 2016/17 to 2019/20).
- Up to a R500 000 lifetime limit.

The capitalisation of the interest you earn does not form part of the lifetime limit.

If you opened a tax-free investment for your child at birth, and over the next 15 years contributed the maximum yearly allowance (up to the total of R500 000), your child would have just under R1 million by the age of 15 and R2 million by the age of 25*. That's the power of compound, tax-free savings.

*Assuming an 8% average effective interest rate and the annual allowance being deposited at the start of each tax year.

*Figures are for 2021, unless quoted otherwise.

Important things to know about tax-free investments

You can invest for yourself and in the name of each of your (minor) children:

- Each person can have **more than one tax-free investment at one or more institutions,** as long as you stay within the yearly limits per tax year. This means you could invest R12 000 at Nedbank, R12 000 at Investec and R12 000 at Absa.
- **If you exceed the yearly or lifetime contribution**, SARS will charge a penalty fee as well as a flat rate of 40% on the over-contributions.
- **Once you have withdraw money from a tax-free investment product, that portion of your contribution cannot be replaced,** and it reduces the maximum capital you will accumulate. For example: You cannot contribute R36 000, take out R10 000 and then reinvest R10 000 all in the same tax year. Furthermore, in this case, R36 000 will be deducted from your R500 000 lifetime limit, even though you are left with a net of only R26 000.
- In case of a tax-free fixed deposit, **make sure that the investment stays intact on maturity, and not paid out into your current account,** as the latter is a withdrawal.
- You can also **switch between tax-free investment products within and across financial institutions.** To do this, do not withdraw the money and redeposit, but ask for a transfer.

For more detailed rules visit sars.gov.za.

When to invest into tax-free products

You should consider a tax-free product for savings that you are not planning to access in the short to medium term. The earlier you start, the longer the investment period, the better the lifetime benefit.

At the same time, if you are not using your annual interest exemption and are not sure when you will need to access the money, a normal investment could be better for you.

Either way, always remember: **tax-free investing is not a short-term savings tool.** If you use up your own (or your childrens') tax-free allowance and decide to withdraw money in the short term, you deny yourself or them the opportunity of the lifetime benefit of compound, tax-free growth.

Choosing the right tax-free investment product

Product choice always depends on your personal circumstances, so the following serves as a guideline only.

Tax-free savings account	Primarily designed for clients who wish to make smaller, monthly contributions by stop order or debit order. As soon as a meaningful amount has been accumulated, ideally this should be transferred to a fixed-deposit or unit trust tax-free investment to access better rates.
Tax-free fixed deposit	For seniors managing their retirement funds, the fixed-deposit tax-free investment is an ideal way to stay ahead of inflation while capital is guaranteed.
Tax-free unit trust	Since a tax-free investment should always be aimed at a longer-term investment horizon, unit trusts would be the right choice for most tax-free investors. Within tax-free unit trusts, investors can select tax-free unit trust options to match their risk appetite and investment horizon.

How to invest in a tax-free investment with us:

Log on to the Money app or Online Banking >
Apply >
Grow your investments >
Tax-free investments >
Get started.

Then select from the range of retail deposit and unit trust products.

For comprehensive investment advice and help with opening your tax-free investment, please speak to your banker or a Nedbank financial planner.

6 ESTATE PLANNING

What estate planning involves

At its core, estate planning is about protecting your own and your loved ones' interests after you die. It helps you preserve your lifetime assets and ensures the most effective distribution of your estate to your intended beneficiaries.

A good estate plan should achieve the following objectives:

OBJECTIVE	DESCRIPTION
Ensure distribution of your estate as intended	• Have peace of mind that your finances and assets are structured in a way that allows for changes in your circumstances, regulations and best practice over time and that it provides protection against risks. For example, using a trust to house your assets can help protect your assets if government or creditors want to confiscate them in the case of insolvency. • Be confident that in the case of death, your assets will as you intended, instead of the government deciding what happens to your assets.
Protect your beneficiaries, children and other vulnerable family members	• Prevent your loved ones from being forced to sell assets to cover expenses and costs. • Minimise your loved ones' financial stress during what will already be an emotionally difficult time.
Create time- and cost-efficiency	• Avoid an unnecessary delay in the payout of assets and inheritances by ensuring your financial structures and the administration of your estate are as efficient as possible. • Minimise costs such as taxes.

Since the family setup and make-up of the estate are different for each person, your estate and succession plan has to be tailored to your circumstances.

The following four steps unpack what estate planning involves. But depending on the complexity of your estate and size of assets, we recommend that you get professional advice from a financial planner or specialist in this field.

Understanding the financial impact of death

There is a range of costs that will need to be covered on your death. Part of estate planning is to get a good understanding of these costs, and to cater for them adequately. There are four main brackets of costs to consider:

1. **Immediate costs**: For example, funeral costs.
2. **Settling outstanding debt and liabilities:** For example, any amounts still owing on your home loan.
3. **Taxes:** Estate duty and capital gains tax.
4. **Estate administration fees:** For example, executor fees.

Making provision for the financial impact of death

To cover the costs of dying the estate will require two things:
1 Cash
2 Assets that can be converted to cash easily

This is known as the **liquidity position.** If the estate has a shortfall, some of its assets would have to be sold to cover the costs, putting your loved ones at financial risk. But there are ways to avoid this, for example:

- Make regular contributions to your cash reserves to grow these or increase the assets that can be converted to cash easily.
- Take out a life insurance policy that pays out immediately to your beneficiaries on your death, bypassing the estate.
- Set up separate emergency accounts for your loved ones and make regular deposits into these accounts to give them immediate and easy access to extra cash.

Having a valid, up-to-date will

A valid, up-to-date will ensures that your wishes are clear and that the right people benefit from your assets.

For a will to be valid, it must fulfil these legal requirements:

- It must be in writing (handwritten by a person who is not a beneficiary, or printed)
- Each page must be signed by the testator.
- The will must be witnessed by two competent witnesses (14 years or older).

For a will to be up to date, it must show your latest circumstances (for instance your marital status or new business ventures).

What happens if you pass away without a valid will? Then you will die 'intestate', which may have the following consequences:

- Your loved ones may not receive the assets you wished them to have.
- There could be serious delays in the administration of your estate.
- It could lead to conflict between your family members and dependants.

Structuring your assets optimally

The ownership structures of your assets have different estate and tax-planning consequences and there are many factors to consider when choosing a specific structure or mix of structures.

The next sections give a more detailed overview of these topics.

Structuring your assets optimally

There are different ways to structure your SA and international assets during and after your lifetime. These include the following:

SOLE NAME	JOINT NAME	MULTIPLE NAMES	TRUST	COMPANY	TRUST AND COMPANY
Owning the asset in your name only.	Co-owning the asset with someone else (applies to tangible assets only, eg fixed property).	Co-owning the asset with more than one person (international assets only).	Setting up a trust and placing the asset in the trust.	Registering a company and holding shares in the company in your personal capacity.	Setting up a trust and using the trust to fund a company through a loan or issuing shares, with the trust as the shareholder.

These ownership options all have different estate- and tax-planning consequences. The ownership structure determines, for example, how your assets will be distributed after your death, and whether you can make provision for your dependants.

To make an informed decision about which ownership option would work best for you, it is essential to understand the consequences of each. Some of the factors to consider are set out in the following table, but it is highly advisable to get professional help with choosing and setting up these structures.

Factors to consider when choosing a structure

ATTRIBUTE	WHAT IT REFERS TO	QUESTIONS TO CONSIDER
Continuity	The extent to which significant events such as liquidation or death can disrupt the continued management of, or access to, your assets.	Is it important that you or your family retain access to and control over these assets if you face liquidation or if you pass away?
Effective distribution of your assets after death	The process and time frame related to how your assets will be distributed after your death. For example, assets included in your estate may be frozen for some time before your beneficiaries can access the assets and there are costs involved in winding up your estate.	Do you have certain requirements or limits relating to access to your assets on your death, for instance is it important that your family get immediate access to your assets?
Protection of your dependants	The extent to which minors or those with disabilities are financially protected, and which education planning and intergenerational wealth transfer is enabled or supported.	Do you have dependants who require your financial support, now and in the future?
Protection of your assets from seizure	The legal ownership (structure) of your assets and the associated level of protection from government and creditor risks.	Is it important for you to protect your assets from possible seizure by government or creditors confiscating them in case you become insolvent?
Tax and tax administration	The potential tax rates and associated tax risks that apply, and the tax administration requirements and responsibilities.	Are you aware of the tax consequences of the ownership choices and which ones are most tax-efficient? Do you have the knowledge and capacity to deal with complex tax administration, or do you have access to expertise and support?
Flexibility	The extent to which the ownership structure allows for changes in your circumstances, regulations and best practice over time.	Is it important to you that the structure can adapt to changes in your personal circumstances or changes to industry regulations over time?

Practical tips

The following provides a set of best practices, tips and tools for you (and your loved ones) to consider. Many of these are especially useful to have in place in case of you suddenly and unexpectedly become incapacitated or pass away.

Storing of critical information and documents

Record and collate the information and documents that are critical to managing your affairs and share this with your loved ones or tell them how to access the paperwork, for example:

OBJECTIVE	DESCRIPTION
Regular or ongoing expenses	An inventory of all regular or ongoing expenses (how much, from which account, how and paid when), including the relevant supporting documents and contact details (for example a rental contract and the contact details of the landlord).
Bank and investment accounts	An inventory of your bank and investment accounts with login details (usernames, passwords and PINs) and any other assets, for instance property.
Contact details of key people	Contact details of the key people involved in your financial affairs, for instance your financial planner and attorney.
Digital profiles and assets	An inventory of all your digital assets and accounts with login details, indicating which of these have a monetary value, for instance cryptocurrency accounts. It is also advisable to familiarise yourself with the terms and conditions of your online accounts and to specify your digital assets in your will.

Include documents that may be requested as part of the estate administration process:

- Your identity document
- Marriage certificate
- Original antenuptial contract
- Divorce order
- Predeceased spouse's death certificate
- Details of your heir(s) and their FICA documents
- Title deed(s) for fixed properties
- Vehicle registration certificates
- Copies of firearm licences
- Policies payable to the estate
- Short-term insurance details
- Details of all assets or investments
- Share certificates
- Timeshare certificates
- Liabilities and debt
- Income tax details

Making arrangements in case of incapacity

To cater for you becoming incapacitated – whether permanently or temporarily – you ideally need to make the necessary arrangements ahead of the time.

Primarily, this means ensuring access to your accounts as required and legally authorising another person to act on your behalf. Ideally you should share your wishes, for instance who you would like to take control, and make the necessary arrangements.

Definition of 'incapacitated':
When someone is physically or mentally unable to manage their own affairs.
For example: a prolonged hospital stay following an operation, or being diagnosed with a mental illness that deems them incompetent to make decisions.

1. **Access to your accounts and assets**
   Other than on death, where accounts are immediately frozen, in the case of incapacity your loved ones would still be able to transact on your accounts digitally, if they have the login details and access mechanisms. That is why it is important to store critical information as explained earlier.

   But sharing these details could mean unlimited and uncontrolled access, which comes with other consequences.

2. **Legally authorising someone to act on your behalf**
   In the case of physical access, they may need evidence of permission to act. For example, depending on how long you are incapacitated for or the nature of the financial affairs, your loved ones may need to sell assets or make changes to your banking relationship, which requires legal authorisation.

Appointing a power of attorney and/or administrator

A very important difference exists between granting someone a general power of attorney and having a curator or administrator appointed to manage your affairs. A power of attorney can be validly used only while the principal (the person giving authority to the agent to act on their behalf) is still mentally competent to make legal decisions. A general power of attorney will thus lapse where the principal is no longer capable of managing their own affairs due to mental incapacity, when an administrator must be appointed.

A family member, an attorney or another professional individual **can act as a power of attorney or administrator.**

Difference between a power of attorney and an administrator

	POWER OF ATTORNEY (POA)	ADMINISTRATOR (OR CURATORHSHIP)
When to appoint	• If you are physically unable to act but are mentally competent, you can give your loved ones permission to act on your behalf in the form of a power of attorney.	• If you are mentally incompetent (ie you cannot make rational decisions and you don't understand the consequences of your actions), your loved ones must apply to appoint an administrator to manage your affairs.
How to put in place	• You authorise another person (the agent) to act on your behalf by signing a power of attorney form. • If you appoint a loved one as the agent, make sure they understand what they can do and cannot do.	• An interested party (eg a spouse) applies for the appointment of an administrator (or curatorship) to the Master of the High Court. • To determine who is a suitable administrator, the Master will request reports from two medical practitioners – one must be a mental health practitioner.
Other	• Special power of attorney: allows the agent to act in either a specific transaction (for instance when buying property) or in a limited, specified range of matters. • General power of attorney: the agent is authorised to act on your behalf with very little limitations.	• Curatorship is a more complex, costly and cumbersome alternative to appointing an administrator, the latter being limited to act for 'a mentally ill person or a person with severe or profound intellectual disability'.
Duration	You can cancel the power of attorney at any time. Furthermore, it will lapse automatically when you: • die; • become insolvent and your estate is sequestrated; or • become mentally incapacitated and are no longer competent to act on you own behalf.	• Expires on the death of the person.

Making arrangements in case of death

Immediate steps following a person's death would include the following:

1 **Report the death:**

Report the death to any of the following people:
- Specific officers at the Department of Home Affairs.
- Members of the South African Police Service (SAPS).
- Funeral undertakers who are appointed and recognised by the law.
- If the death occurred abroad – a South African mission, embassy or consulate.

Fill in the required form.
The person reporting the death, as well as the people listed below, must complete the 'Notification of death' form:
- A medical practitioner (or a traditional leader where a medical practitioner is not available).
- A Home Affairs official or SAPS member.

Once the 'Notification of death' form is submitted, Home Affairs will issue a 'Death report'. After both the form and report have been processed, **Home Affairs will issue the death certificate.**

In many instances the medical practitioner or hospital will report your death on behalf of your loved ones' which means they won't necessarily have to take these actions them-selves.

2 **Start the estate administration process:**

Contact your financial planner.
Report the death to your financial planner to start the estate administration process and provide the following documents:

- The 'Notification of death' (issued by a medical practitioner or the mortuary).
- An inventory of the deceased's assets.
- The original will.
- The death certificate.

Provide updated documents, if requested.
Once the assets in the estate are ready for distribution, the executor will request your loved ones (the heirs) to complete various forms and provide updated FICA documents to transfer the assets.

It is important to start the process as soon as possible. The estate administration process can take months, so don't expect an outcome immediately. At best, estates take a minimum of 10 to 12 months to be wound up. The process can take even longer where the deceased's affairs are more complex, or information is difficult to get.

3 **Getting access to your money:**

Your bank and investment accounts will be frozen as soon as the death has been reported.

It is only once the executor has been appointed (which can take up to eight weeks following the death) that the executor can:

- open a new bank account in the name of the estate and transfer money from your bank account into the new bank account; and
- consider interim advances to your loved ones against an inheritance.

FOR YOUR BANKING AND INVESTMENT NEEDS

Relationship bankers are on hand to guide you or to introduce you to a qualified financial planner should you want to look at your investment portfolio more holistically.

Contact Professional Banking on 0860 555 222,
or email Professionals@Nedbank.co.za

For more general information please visit
Nedbank.co.za or call 0860 555 111

Disclaimer

The information in this guide is not financial advice. While every effort is made to ensure the correctness of the information, we give no guarantees about the accuracy of the information. We will not be liable for any loss if you rely on the information in this guide.

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