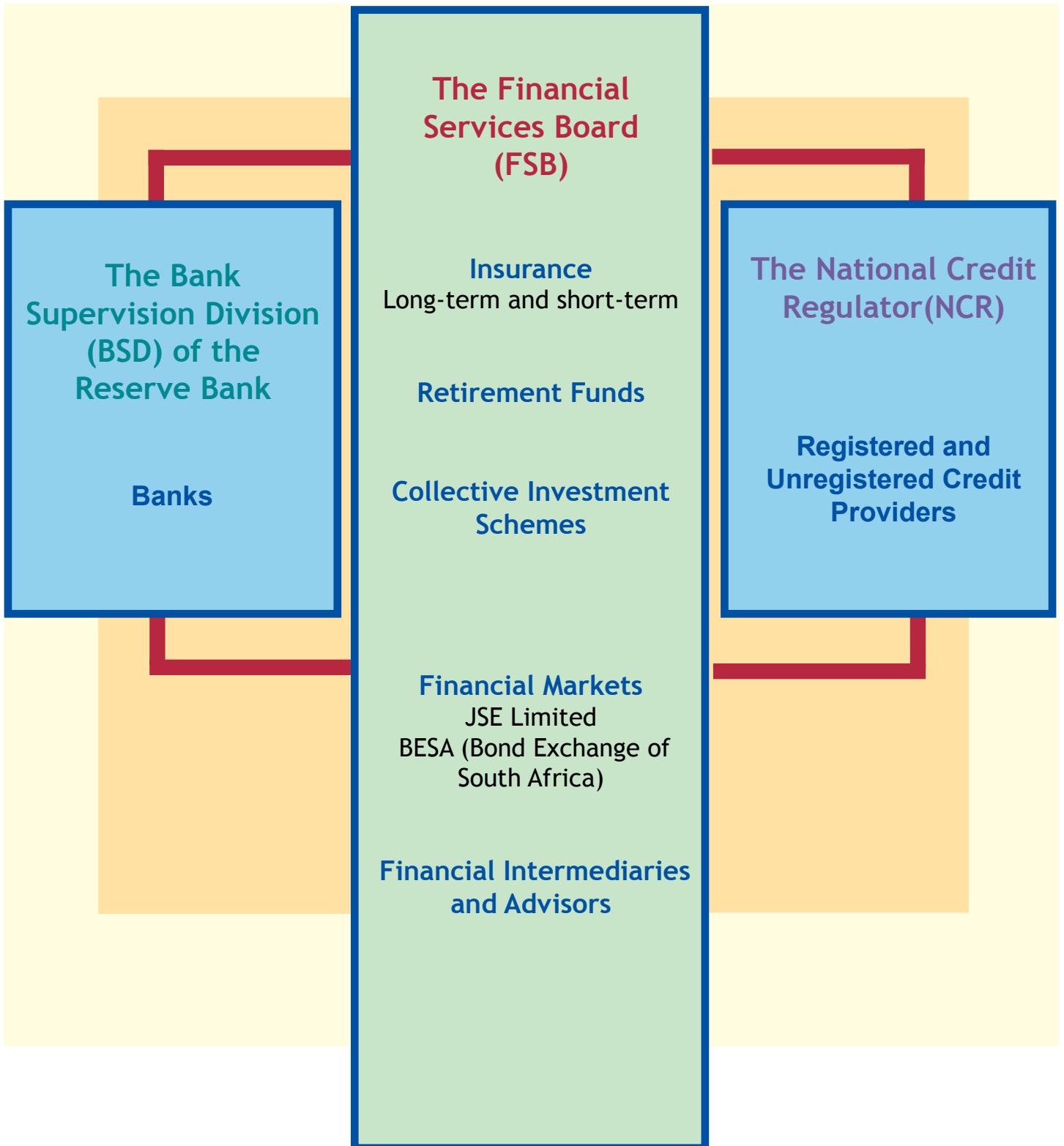


THE FINANCIAL SERVICES REGULATORY STRUCTURE



WHAT IS GOOD MONEY MANAGEMENT?



*Good money management is about understanding the difference between **needs** and **wants**, and then spending your money wisely and not incurring debt unnecessarily.*

As long as we live from hand to mouth, we will never gain control over our money. A cycle of **earning** and **spending** that goes on and on doesn't allow anyone to plan for the future. Add to that the temptation of getting into debt (spending money you haven't earned yet), and good money management becomes almost impossible.

Needs and Wants

Because credit is easily available, we are tempted into borrowing when we shouldn't. Incurring liabilities should be done responsibly for long-term assets which you will still possess after the debt has been paid off. The money we earn from employment should first be spent on the family's essential **needs** before we satisfy the less essential **wants**, which are just nice to have.

We should aim to have something left so that we can save. We should avoid spending more than we earn so that we have to borrow just to maintain our everyday living expenses.

All of us are capable of managing our affairs well by using a budget.



Draw up your budget, work out your sums until you have a bit of **money left over** every month. **Save** this, **invest** it, or **work with** it and you will gradually achieve security for yourself and your family.



You think it is impossible? No, it is a skill that **anyone** can learn – no matter how much (or little) money you have.

Read this booklet and find out what you can do to make your dreams come true – and how the formal financial services sector (banks, insurance companies, etc.) can help you do it.

THE MONEY PROBLEM:

What can we do about it?

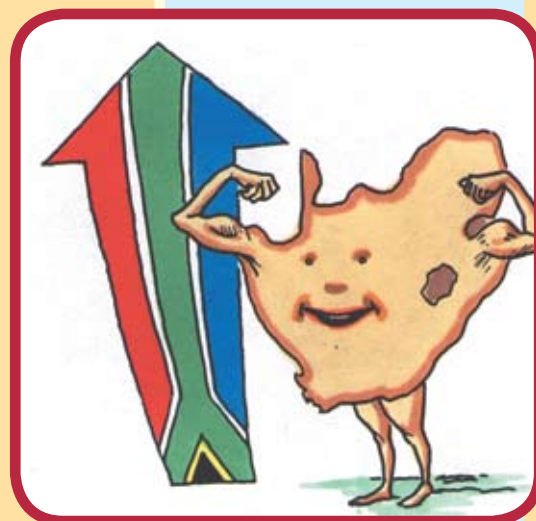
As Individuals and Families

- We can **budget**.
- We can decide **together** what the family **really needs**. What is more important: new bikes for the kids, or a savings account for their education?
- We can **plan** carefully how to reduce our debt (if we owe more than we can afford to repay). With some advice from the bank, and possibly an intermediary, we can work out **carefully** how to **get out of debt**.
- We can stop borrowing to buy things that we do not need, especially if they have a short life.
- If we get a windfall (a bonus, overtime, an inheritance) we can invest it or repay our debts with it. Money saved today can make life easier and better when you retire!
- Above all, we can avoid get-rich-quick schemes. The only people who “get rich quick” are the people who run the scheme.



As South Africans

- We can **all** help to make our country strong ... through **hard work**, **honesty**, and the **desire** to improve our lot.
- We can say: “My family and I can make a difference.”
- We can **improve our family life** ... and then our town ... and our province ... and eventually South Africa will benefit from the commitment of **all** its citizens.
- Our savings can help the economy.



**MOST PEOPLE CAN IMPROVE THEIR LOT IN LIFE —
BUT IT DOES TAKE EFFORT!**

THE DEBT TRAP

Do you know that South Africa is a nation of people in serious debt?

Debt is the number one financial problem for high and low income earners alike. The more we borrow, the more interest we pay and the less disposable income we have. Debt brings worry, stress, marital problems and a sense of hopelessness about the future. Debt can also **enslave** us – especially if we do not honestly face the problem and make a plan to **get out of it and stay out of it**.

Getting out of debt – where do you start?

1. Face the problem

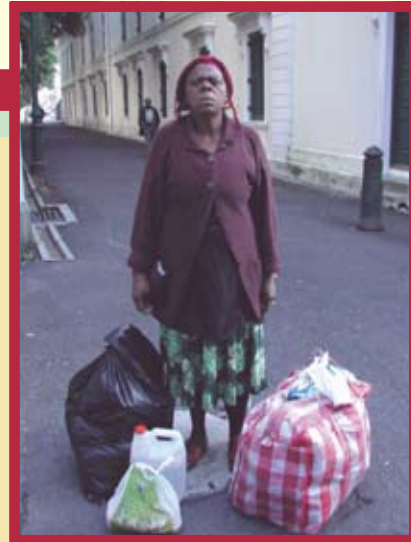
Make a list of all your creditors and write down how much you owe each one.

2. Draw up a budget

Paying off your creditors has to be your first priority. Put fixed expenses (electricity, water, school fees and rent or bond repayments) and a limited grocery expense at the top of your list. From what you have left, work out how much you can afford to pay each creditor each month.

3. Discuss the situation with your family

One of the biggest obstacles to overcoming debt is lack of co-operation among family members. This is not something you need to discuss with the children. But if you have adult family members depending on your income, discuss the situation with them. If your family is to get out of debt, all the members must co-operate. All must agree on the budget you have drawn up and stick to it. It takes discipline, but it can be done.



If your problem is serious

Unmanaged debt can land you in serious trouble. If you are afraid to open letters from the bank, and regularly throw away bills, you are running away from a problem. The problem will eventually find you. People who do not pay their debts end up being **negatively listed**. This means your name is forwarded to the Credit Bureau, which keeps a list of all debt defaulters. (More about Credit Bureaus on page 15.) Being negatively listed seriously restricts your financial freedom. On page 33 are details about what you **can** do if this happens.

If you are in serious financial trouble, and you own a home, your first priority is always to protect your home. Face up to the problem and contact your bank. Explain the seriousness of your situation. Ask them to work out the lowest possible repayment plan for your home loan that is acceptable to them. Then stick to the agreement. Don't run away from the problem!

MANAGING DEBT

Most of us have discovered that to live entirely debt-free is almost impossible in our modern world. Overdraft facilities and retail accounts can be extremely useful, making life easier when cash is short.

The danger is in seeing credit as a free-for-all. Credit gives licence to a most basic human urge — the urge to buy and own things.

This urge, if unchecked, can grow out of all proportion. Buying things that we do not need can become a way of life. This is fine if we have unlimited money. But if money is limited, we have to **prioritise**. Many people never learn to prioritise, and as a result find themselves in quite a mess.

Prioritising means paying for essentials first. Bond repayments, rent, car repayments, school fees and food are essentials. If these are not paid, the consequences are serious. These are often neglected because uncontrolled spending on credit has swallowed half our salary. If you are spending so much on paying off clothing and appliance accounts that you cannot afford essentials and have to resort to your credit card to pay for groceries, you are getting into deeper trouble every month.

How do you manage debt well? First, by reducing the amount of debt that you are in. An acceptable level of debt is if you can pay the full instalment every month, without defaulting on other obligations. Remember, always pay off the debt with the highest interest rate first!

If you pay less than the full monthly instalment, you incur **interest**. This makes the following month's instalment higher — making it even less likely that you can afford the full instalment. In this way, a vicious cycle begins.



Do not be tempted by the promises of **debt mediators**. They may fail to distribute your money to creditors, causing you further financial difficulties. And remember, it is **illegal** for them to charge you an **upfront fee**.

WAYS TO REDUCE YOUR DEBT

As debt eats further and further into our limited resources, we need a strategy to reduce debt.

1. Know your debt

The first line of defence is knowledge. Know each debt, and its terms of repayment. Most importantly, know the **interest** you are paying each month on each debt. Then you will know which debts are a priority to pay off as soon as possible, and which you can afford to carry a little longer.



For example: Gerald owes R5 000 on his credit card and R50 000 on his home loan. The bank charges 24% interest per year on his credit card, and 15% per year on his home loan.

This works out to 2% interest per month on the credit card (R100 a month) versus just over 1% interest per month on his home loan (R625 a month). Which debt is the priority to pay off first? The one with the higher monthly amount may seem to be more important, but this is misleading. The answer is the one charging the higher interest! Gerald would be wise to pay off more than the minimum monthly payment on his credit account to clear this debt as soon as possible.

2. Consolidate your debt

One way to reduce one's monthly debt repayments is to consolidate one's debts. You borrow enough from your bank to pay off the many smaller debts at once. You then have only one creditor – the bank (see page 13).

Do your homework carefully. Check that the overall interest you will be paying is **less** than the total on your individual accounts! You will have to convince the bank that you can stick to your agreement – in other words, that you are serious about your plan.

3. Rationalise your insurance

If you feel you are paying for too much insurance, you can possibly reduce the total amount of your premiums. **Get advice.** If you cancel (lapse or surrender) a risk policy, you lose your cover. But if it is an investment policy, you could **lose** what you have already paid into it. Find out the best way to get your life or endowment policy to fully paid-up status, or whether you can reduce the premiums. **Don't lapse or surrender a policy without checking what the implications are.** Ask your insurance intermediary for advice, but think carefully if he or she suggests replacing one policy with another. If you want to confirm that the advice is in your own best interest, you can phone the insurance company's **Customer Helpline.**

4. Pay off your home loan

Plan A

If you pay just 10% more than your monthly instalment, you will pay off your home loan in a much shorter time.

Plan B

Take any windfall and pay it on your home loan. Use your annual bonus or sell the second family car! An extra once-off payment of R5 000, for instance, will eventually save you thousands more over the term of your bond, because you will not have to pay the compound interest on it!

Plan C

*Unless you have a fixed interest rate, your instalments will change with the current rate of interest. When it drops, **keep up the higher payment.** You will be surprised how much interest it will save you in the long run!*



5. Spend less

The quickest and most sustainable way to get out of debt is to practise self-control. We live in a world that promotes spending. We are subjected to an almost constant bombardment of TV, radio and magazine advertisements urging us to spend, spend, spend.

We need to become more aware of how we are tempted by advertisers to want things that we do not really need. We need to remember other expenses that may become a priority in the near future, e.g. school fees, bond repayments, a car. We simply cannot buy everything our hearts desire. Many people have expensive cars, grand homes and designer clothes. We tend to look at them and want what they have. But, remember, real happiness and success come with managing what we have – not trying to have things we cannot afford.

A FEW BASIC CONCEPTS

This section introduces some basic concepts. We will look at all of them in greater detail further on.

Borrowing and lending

When we **borrow** something, we are given permission to use it for a period of time and we usually have to pay for this. For example, if we are **hiring** a car, we are, in fact, borrowing it and we **pay** to do so.

We can also borrow money. Borrowed money is called a **loan** or **credit**. The price we pay to borrow money is **interest**. The actual amount that we borrow is the **principal** or **capital amount**.

It's easy to understand why many people want to **borrow** money. Very few of us have enough money to pay cash for something as expensive as a house or a car, so we borrow money and agree to pay back the amount, plus interest, over time. If we can live without something, though, it is better to wait until we have the money to pay cash.



But why would someone **lend** us money? To make it worth their while to lend their money to a borrower, lenders must **earn** something for the service that they provide and for the risk that they take. The **interest** that they get from the borrower is their reward or “return”. Interest is usually written as a percentage of the principal amount over a period of time, e.g. for a R10 000 loan you may have to pay **24% interest p.a.** That is **R200 a month** in addition to what you have borrowed.

Credit

Credit is borrowed money. When we buy something “on credit”, whether it is a fridge or a car, we are using it before we have paid for it. When we **borrow** money, we are spending money before we have **earned** it.



Interest rates

Interest is either money we earn when we deposit money at the bank, or it is the price we pay for credit.

The interest percentage that we earn or pay per year is called the **interest rate**. For example, we may borrow R50 000 at an interest rate of 20% per year to buy a car. In simple terms, the cost of borrowing that money for the first year of the loan is 20% of R50 000 which is R10 000 (R833 a month).

However, interest rates are sometimes a bit more complex, depending on whether all the interest is calculated at the **beginning** of the period of the loan, or whether you pay interest on the **balance** of the debt after every monthly repayment. Ask your bank to explain to you exactly how the interest on your loan will be calculated.

Never borrow money if you are not sure that you can afford the repayments.

Goods and services

The things we buy are either **goods** or **services**. For example, items such as food, furniture and clothes are goods, while medical care, banking and education are services.



Supply and demand

Producers supply goods and services to meet **customers' demand**. For example, if a lot of people buy apples, producers will produce a lot of apples. If there is a **strong demand** for apples, but a **limited supply**, the **price will rise**. As producers supply more apples to meet demand, the price will fall again.

When people are buying all the apples they can afford, and producers are selling all the apples they can produce at a profit, we say that demand and supply are in **equilibrium** (or balance) and the price of apples is stable.



Producers go to great lengths to ensure a balance between supply and demand.

Intermediary

In the financial world, an intermediary is someone who facilitates business between the consumer (the client) and the supplier of the service (a bank or an insurance company or the JSE Limited, for example). Intermediaries include insurance brokers, bank officials and stockbrokers. Find out more about them on page 17.

Return

A **return** is basically income. Investors must make a return on their money or they may as well keep it under a mattress and not invest it. The money that investors invest in businesses is called **capital**, or **equity**. Investors expect a return on their equity. If a business cannot provide the expected **return on equity (ROE)** to the investors who have put money into it, the investors will take their money out of the business and the business will have to find new investors or close down. Banks, just like other businesses, must attract investors by ensuring an adequate return on their money.

Risk and reward

The **more risk** an investor takes, the **bigger the reward** he or she expects. If there is a high risk that investors will lose part or all of their capital, they will expect a higher return on equity to compensate for that risk.

Never risk money you cannot afford to lose!



Inflation

Inflation is an **overall, ongoing rise in prices**. Prices are always rising and falling as supply and demand change, but a price increase on a single product is not inflation. Inflation is usually given as the percentage increase in overall prices over a year. This reflects the **reduction in the purchasing power** of your money. If you divide 72 by the inflation rate (say 10%), you get the number of years it will take before your money buys only half of what it buys today!

THE BANKS AND YOU

Banking is as important to a country's economy as industry and commerce. When people manufacture products and when they buy and sell these products, they need banks to handle the money ... the financial transaction. Can you imagine the owners of a big gold mine selling their gold output for cash, and then locking the cash in a cupboard until they need it to buy new machinery?

Private individuals also need banks. Banks act as intermediaries between customers who want to save (invest) money and customers who want to borrow money – and between customers who want to deal with one another, e.g. buyers and producers.

South African banks have branch networks all over the country. Shop around to find the one that offers you the best services and fees.



THE MAIN SERVICES THAT BANKS OFFER

Modern banks provide a wide range of services to the public. The services listed here are the main ones that most people are likely to use. As your needs grow, you can ask your bank about any other services it offers.



It is good to establish a personal relationship with your bank. Get to know your personal banker or consultant. He or she will get to know your particular circumstances and will be able to ensure that you get the best advice at all times.

Savings account

This is mainly for saving, but you can also use it to make other transactions. You need only a small amount of money to open a savings account and maintain a minimum balance – and you are paid **interest** on your money. Some banks allow you to make a certain number of cheque withdrawals from your savings account. **ATMs (Automatic Teller Machines)** give you access to your savings 24 hours a day.

Personal loans

When you have a good track record with your bank, they may allow you to take out a personal loan.

Cheque account and overdraft

With a cheque account (or **current account**) you receive a cheque book, and you can pay people by cheque. But there is a **fee** for every transaction. Your cheque account often pays no **interest**, but your bank may allow you an **overdraft** (a type of loan) on it, depending on your **credit record**. Interest is payable on an overdrawn balance.



Debit cards

A debit card gives you the benefits of “electronic banking” without the danger of spending money you do not actually have. Managing your finances is **easy** – you can only spend money that you have in your account and it comes out of your account immediately! You also get a printout once you have finished your transaction, showing how much money is left in your account. You



Credit cards

With a credit card, you can pay for your shopping without having to carry a cheque book or cash. All your purchases go onto your **account** (you buy “on credit”) and you pay the bank once a month. You will only qualify for a credit card once you have a **good credit record**. **Don’t** use it for term purchases and avoid only paying the minimum instalment. If you can’t pay the full amount, pay as much as possible. The interest rate on credit cards is very

Hire Purchase (HP) accounts

Certain **banks** specialise in hire purchase loans which are registered over the items you buy. If you don’t pay your instalments, the items you have purchased are repossessed. Usually the dealer negotiates the loan with the bank on your behalf, but you can talk to the bank directly to try to get a better **interest rate**. Before you take out an HP, the company usually checks your **credit record**. A bad credit record may mean the HP application is turned down.



Notice deposit accounts

Notice deposit accounts earn you higher interest, but there are **restrictions**. The minimum amount needed to open the account is higher than for an ordinary savings account. The main difference is that you have to give the bank an **agreed period of notice** (e.g. 32 or 60 days) before you can draw the money in your account.

Fixed deposit accounts

This account offers a **fixed interest rate** over a **fixed period of time** (say 12 or 24 months). The money must remain in the account for the specified period of time. This protects you from the temptation of drawing the money, and is a good form of saving for a **particular goal**, such as education or a new car.

DORMANT ACCOUNTS

Some accounts have no upper or lower limits, as long as you keep them open and you use them regularly. When an account has been dormant (not used) for a certain period, the banks have the right to close it and keep your money unless, and until, you claim it.



THE FINANCIAL SECTOR CHARTER: ACCESS TO FINANCIAL SERVICES

The financial sector, through the Financial Sector Charter, has to introduce easily available and affordable financial products and services. Some of these products meet certain standards such as the Zimele brand for long-term insurance products, the Mzansi short-term insurance standards and the Fundisa fund, which is a savings product for students. If you are interested in accessing these products, talk to your bank or insurance intermediary.

Home loan account (mortgage bond)

A home loan account, or **mortgage bond**, is probably the most important contract, apart from marriage, that you will sign in your life. It is a **long-term agreement** between you and your bank. If you qualify, the bank lends you money to buy or build a home. The loan, with **interest**, is repayable over 20 or 30 years. If you repay it sooner, you will save on interest. (Remember Plan B on page 7.) Your home is the bank's security. If you fall behind with your repayments, the bank may repossess your home to recover any money that you still owe and to protect its other clients' deposits.

Most banks nowadays offer customers the convenience of re-borrowing as much of the original bond amount as they have repaid. If you have paid off enough, you can draw money from your home loan to pay for new furniture, travel, or even a car – at a much lower interest rate than normal.

This is a convenient and economical way of buying on credit. But it is dangerous, too. You can find yourself in a position where your home loan **never** gets paid, and you eventually face retirement with a massive amount still outstanding ... and the risk of losing your home in your old age.

A much better idea is to use your home loan as a savings plan. Pay off extra each month. This is often the most efficient way of investing until your bond is fully paid. In so doing, you can save huge amounts of interest.

If you want to renovate your home, you could access your bond. Ask your bank to help you work out the details if you want to use your home loan to plan for a future expense.



A home loan is the biggest single debt the average South African will incur in his or her life. You should aim to have repaid your home loan by the time you retire.

Society or group accounts

Designed for a group of people who want to **save together**, this type of account is similar to a stokvel. Bank costs are low and your savings earn **interest**. A minimum amount has to remain in the account to keep it open.

REMEMBER THE GOLDEN RULE:

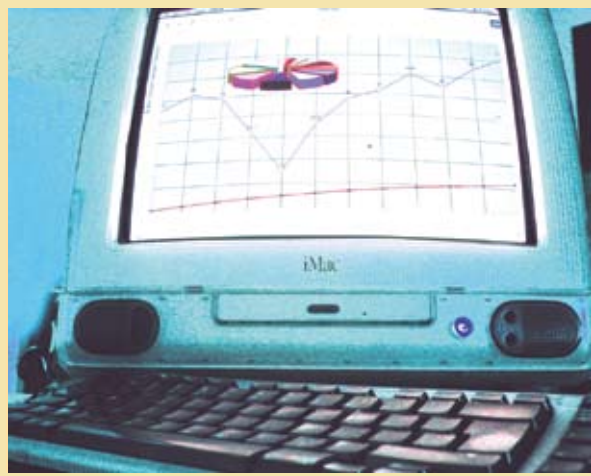
**MONEY THAT YOU SAVE
MAKES YOU MONEY.
MONEY THAT YOU BORROW
COSTS YOU MONEY—
AT HIGHER INTEREST RATES
THAN YOU EARN ON
YOUR SAVINGS!**



OTHER USEFUL BANKING SERVICES

Internet and telephone banking

If you have a **computer** (and you subscribe to the **Internet**) or your own **touch-tone phone**, you can do a lot of your banking from home or from your office.



Investment advice

Whenever you are ready to plan your investment strategy for the next few years, one of your first stops may well be at your bank. Bank staff members are professionally trained to provide good advice on different forms of investments. They will also be able to refer you to a reliable insurance broker, if you do not have one yet.

Choosing the right investment account can make a big difference to the interest you earn – and to the future value of your investment portfolio.

Consolidating your debt

When one is in financial trouble, it is sometimes appropriate to consolidate one's debts. In certain circumstances your bank may be willing to help you do this by lending you enough money to pay all your accounts and then you need to repay only one loan, i.e. the bank. If you think this may be a good idea in your case, talk to your personal banking advisor. She or he will explain the conditions to you.

Foreign exchange payments

In the modern world of international travel, the banks play a key role in advising you and arranging for you to have access to your money when you are out of South Africa. There are regulations regarding the amount of money you are allowed to take out of the country and in what form. The appropriate bank staff member will explain the legal requirements and what can and cannot be done, as well as organise travellers' cheques in the currency you will need and arrange for you to be able to use your credit cards in other countries. There is a charge for these services, which may vary from one bank to another.

The banks also arrange for purchases made outside the country and the transfer of funds.

If you have arrived at a point where you would like to invest money directly overseas, your bank will be able to explain the Reserve Bank's requirements to you.



Keeping banking fees down

Banks charge their customers banking fees for the services they provide. By carefully selecting the services or accounts that you need, you can minimise these fees. You can also shop around and compare the fee structures of the different banks. Finally, you can ask the bank you have chosen to offer you the best possible fee structure.

THE IMPORTANCE OF BEING A GOOD CUSTOMER

In a world where we are being encouraged to **spend, spend, spend** (even money we haven't worked for yet) we forget that everything we **borrow or buy on credit** will have to **be paid for eventually**. Most banking or credit customers keep their affairs in order – but there are still far too many who get caught in the debt trap. You can ask anyone who has been there, and they will tell you how difficult it is to get out of financial trouble once you are in it.

It is much easier, they will tell you, to stay out of trouble in the first place!

HOW TO BE A GOOD CUSTOMER IN GENERAL

If you buy anything on credit, follow these rules:

- Make sure that you really need the item. The test is to ask yourself: "Can I live without it?" And if the answer is "yes", think very carefully about it.
- Make your repayments punctually and in full – on or before the due date.
- If you cannot afford the payment for any reason, **write** to your creditor, explain the situation, include the amount that you **can** pay, and undertake to catch up the next month.
- If you really are in trouble and you cannot afford your repayments, write to your creditor, explain the situation, and commit yourself to such smaller regular amounts as you can afford. As long as you keep to your new promise, the creditor is not likely to take legal steps against you.

HOW TO BE A GOOD BANK CUSTOMER

In the course of your career, your bank manager can become a very important person in your life. It is therefore worthwhile to keep your relationship with your bank sound and healthy – come what may!

- Keep to all the rules.
- Be honest with your bank. If your job status or salary changes, let them know.
- If you make a promise to your bank, confirm it in writing and fax or post it to them. A handwritten letter is fine.
- If you have an overdraft facility, treat it with care. Don't use it for unnecessary expenditure, and don't exceed the limit. How you are managing your overdraft is the bank's best way of telling what kind of customer you are!



WHATEVER YOU DO, STAY OFF THE NEGATIVE LIST!

If you do not manage your accounts properly, your bank will give you a **poor credit rating**. Even if you do not have a bank account, if you do not pay your accounts regularly, your creditors will give you a poor credit rating. They will give that rating to any business that contacts them to find out whether you are a reliable customer or a poor risk.

But it gets worse. If you fail to pay more than one instalment, your creditor can take legal steps against you. **Summons** will be issued against you, and then **judgement**. Then your name will automatically be handed over to a **Credit Bureau** and you will be **negatively listed**. Once this happens, you will not be able to open any account anywhere or take out a bank loan (including a home loan).

It usually takes five years for your name to be cleared. The National Credit Regulator (NCR) was established under the National Credit Act 34 of 2005 to regulate credit providers, credit bureaux and debt counsellors. The NCR also enforces compliance with the Act. The Act provides for different periods for which a credit bureau can keep your information. All credit bureaux must be registered with the National Credit Regulator. Although you can negotiate to have this done earlier, it is a long and frustrating process which requires great patience. (Find out how to challenge unfair negative listing on page 33.)

In effect, a judgement against your name might affect your financial standing and your ability to get credit and open accounts.

SOME OF YOUR FURTHER RIGHTS AND OBLIGATIONS AS A DEBTOR

When you borrow money or buy on credit, you accept **responsibility** for your actions.

Make sure that:

- You deal only with a **registered** credit provider (see last page)
- You demand a **written contract** explaining the terms of the deal
- You know whether a **cooling-off period** applies, and how long it is
- You have not signed any **blank forms** for the credit provider to complete afterwards
- You are allowed to pay the debt off **sooner** than the contract states, if you want to. Check with the creditor to find out if there are special conditions governing early settlement.
- The credit provider does not keep your **ATM card** or **ID book**. It is against the law.
- You are able to keep to the **terms** of the **contract**.

DEBT COUNSELLING

In the event of over-indebtedness, the National Credit Act provides for a debt counselling process. The purpose of debt counselling is to help consumers to meet their debt commitments with their credit providers. A consumer who has settled all his or her debts through the debt counselling process will receive a Clearance Certificate from the debt counsellor. This certificate will allow you to have information held by a credit bureau cleared. Only deal with debt counsellors that are registered with the NCR.

Please note that debt counselling has implications for the consumer. During the period that you are under debt counselling, your name will be listed with a credit bureau. You may also not get any loans until you have repaid all your debts.

It is better to negotiate with your creditors first to try to resolve the problem before considering debt counselling.

For more information on debt counselling, call the NCR at 0860 627 627.

RETIREMENT CAN BE DISAPPOINTING

Most people do not have enough money to maintain their standard of living when they retire and they are faced with a choice between continuing to work or adapting their lifestyle. There are a number of things that can contribute to your finding yourself in this position.

1. **Lack of proper planning** — It is very important to review and adjust your financial plan and goals regularly.

2. **Longevity** — We live longer than our parents, so will probably have more “retirement years”, which means we will need more money when we retire.

3. **The retirement gap** — There is usually a shortfall between the benefits of an employer-sponsored pension savings scheme and what you need to retire on.

4. **Healthcare costs** — Medical inflation is higher than ordinary inflation, and high medical costs can be expected after retirement.

5. **Non-preservation** — The worst mistake you can make is to spend your retirement payout when you change jobs. Reinvest it so that it will remain part of your retirement plan.

6. **Early retirement/retrenchment** — Taking early retirement or retrenchment packages five years before normal retirement means you have to add five years to your retirement years and subtract five years from your retirement savings!

7. **Too little, too late** — Self-employed people leave saving for their retirement too late. This results in too little capital being accumulated for a comfortable retirement.

8. **Poor investment decisions** — Making poor investment decisions when investing your retirement savings and capital can undo the work of a lifetime. Be especially careful of investment scams that target senior citizens.

9. **Increased incidence of life-threatening illness** — Although it depends on the type of fund, an increasing proportion of retirement fund contributions goes to fund death and disability benefits, and less goes towards the investment portion. Your retirement scheme will therefore grow more slowly than expected — and you have to make up for it by putting away a little more each month for your old age.



PLANNING FOR THE FUTURE

Most people dream of a financially secure future. But not everyone who has the income and qualifications to realise that dream is willing to give what it takes: careful planning and a lot of determination.

Start now! Whether you are 20 or 50, you have the ideal within your grasp. Discipline yourself. Once you have found the right risk cover and investment to suit your current needs, maintain it. And as your savings grow and circumstances improve, study new investment options. Get advice! A retirement annuity? An endowment policy? Collective Investment Schemes? There are many options to choose from. Build a secure financial future today!

Although some companies sell insurance and investment products directly to the public, most make use of the services of professional intermediaries. Some intermediaries are associated with a particular company while others are independent, marketing the products of a variety of companies.

FINANCIAL ADVISORY AND INTERMEDIARY SERVICES

Codes of conduct for intermediaries have been prescribed by **The Financial Advisory and Intermediary Services Act, 2002 (FAIS)** to ensure professional service. The main focus of the Act is to provide a greater measure of consumer protection. The Act states that intermediaries must **analyse** your individual **needs**, provide the **information** you need to make an informed decision, **recommend appropriate products** and discuss the **costs** and **financial implications** – in other words, provide you with **professional advice and service**.

It is an intermediary's **responsibility** to ensure that:

- your best interests are served and protected
- you understand the financial implications of your policy or transaction, including the

benefits you can expect and repercussions of cancellation or surrender (where applicable)

- you have provided all the information required
- all documentation reaches you within 30 days of issue (where applicable).

Take responsibility for your insurance and investment portfolios, even if you make use of a financial consultant. Deal only with a **licensed** financial services provider (intermediary) and/or representative of a licensed provider. The Act also provides for an Ombuds Office to handle clients' complaints against improper actions of intermediaries.

Intermediaries

form the **link** between the **companies** (insurers, the JSE Limited, banks, etc.) and the **consumer** (you). Most **financial services and products** are **marketed and sold through intermediaries**. Intermediaries include **financial advisors, insurance brokers, bank officials, stockbrokers and investment managers**.

INSURANCE AND YOU



When you **insure** something, you **ensure** that you won't suffer a big loss if anything happens to that thing!

“Insurance” is a word we use so often that we don't ever stop to ask **what it means!** With **insurance**, you basically **protect** yourself against **risk**.

Let's say you buy a new car for R100 000. Now you are at risk. What will you lose if it is stolen or written off in an accident? R100 000! But what if you start protecting yourself against that risk by saving R500 per month? Well ... it will help a bit! After 12 months, for instance, you will have saved R6 000. But R6 000 doesn't help much when you've lost R100 000. No, there is a better way: **insurance**.

Imagine someone comes to you and says, “Give me R500 per month, and I'll take over the risk of your car right from day one! In other words, if your car is stolen, I will pay you what it is worth! If you have an accident, I will have it repaired!” It sounds too good to be true, but this is exactly what insurance companies do! They have thousands of clients, each paying a monthly premium. If you lose your car, even within the first day of buying it, your insurance company will pay you if the conditions of the policy apply!

This is the basis of **all** insurance, both long-term and short-term.

Short-term insurance is insurance that you take out on possessions such as your house, your car or your cellular phone or for a health or disability event – any insurance policy that you can cancel either when you dispose of the insured article or no longer wish to insure it. It can also cover you for legal liability to others. The purpose of short-term insurance is to protect you against losses that you have suffered as a result of events such as accidents, crime and powers of nature (floods or fires). The benefit is intended to place you in the same position as you were prior to the event.

Long-term insurance includes life insurance, funeral insurance and savings for events such as retirement, in cases of a health event or disablement. It is insurance that you would usually expect to pay over a long period of time – until you die or the policy matures (for example, at a specific age). The benefits are in the form of sums of money.



When you decide to buy insurance, it is important to first **look at your insurance needs**. Once you have worked out your **priorities**, you are in a position to find the products that suit you best. If you have a family, your priorities will probably be different to those of someone who is single. You can take out insurance on almost anything – but your choice will depend on your **needs** and what you can **afford**. You can buy insurance either from the insurer directly or through an intermediary who will place your business with an insurer. Some insurers will only work through intermediaries.

It's important to understand the terms and conditions of all your insurance policies, and to be honest when filling in application forms or making claims. Don't make false statements. Don't be embarrassed to ask questions — you have a right to know!

Look on page 34 for an explanation of how tax applies to insurance products.

LONG-TERM INSURANCE

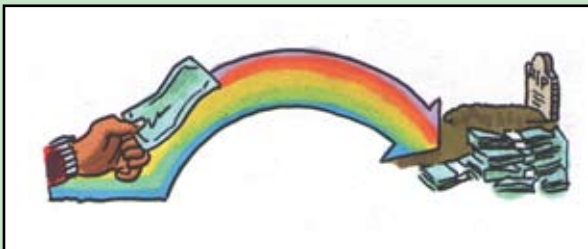
Long-term insurance ensures that your dependants will be provided for when you die or, in some cases, if you become permanently disabled. It can also provide financial security when you retire. Life insurance ensures that a specified amount of money will be available for settling your debts or looking after dependants after your death. Disability cover is an additional option. Retirement plans offer a large variety of choices for providing for the future, and often include life insurance.

Life Cover

There are different types of life cover.

Term insurance

Term or fixed insurance is a risk product and is ideal if you need a policy to provide life cover for a **set period of time**, e.g. while paying off a bond on your house. It is cheap and you can easily **add benefits to it**, such as lump sum for disability. After the agreed period of time, the cover simply **expires**.

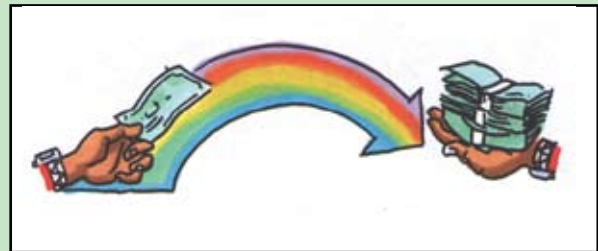


Life insurance

Whole Life Cover is ordinary life cover which is valid until you die or you surrender the policy, i.e. it covers you against the risk of death. This is ideal for the person who wants to leave a **fixed amount of money** behind after death, for example, to pay estate duty. It's the cheapest form of life cover. The premium is invested by the insurance company. You can borrow against it if you wish.

Universal life cover is similar, but has an investment component. The return on the investment portion

depends on the nature of the investment. Because it is influenced by the investment performance, it doesn't guarantee a fixed rate of growth, but the chance of rapid growth makes it a popular choice, in spite of this.



Endowment policies

Endowment life insurance is in effect a **savings plan** rather than simply life cover, but can combine both risk and investment. You pay a monthly **premium** for a specified period, after which it matures and you are paid out a lump sum. It is different from other types of life cover in that it is designed to pay **you** during your lifetime rather than your beneficiaries after your death. You can also invest a lump sum in a single premium endowment policy. It is an excellent way to save a specific amount of money for a particular purpose, e.g. for university fees, and the life insurance portion comes into effect if you die before the policy is due to be paid out. However, there are limitations on the benefits payable in the first five years.

Disability cover

Disability cover is usually added to life cover, but can be acquired separately.

Capital Disability Cover

Capital (or lump sum) Disability Cover can be **added to life insurance**, but cannot be greater than the amount of life cover on the policy, e.g. a life cover policy of R500 000 may have capital disability of any amount **up to R500 000** attached to it. But you will only be paid out once you provide **proof that disability is permanent**. You can also add it to your **endowment policy**.



Income protector disability cover

This is the **best** disability risk cover option. One form of cover provides a **monthly income with annual increases**. In effect, if you are permanently or temporarily disabled, it can replace your full salary until you recover or die, or the policy matures, whichever comes first, but only if this option is included in your policy.

For example, a 25-year-old man has disability cover of R5 000 per month, for which he pays a (tax-deductible) monthly premium of R150. He becomes disabled and claims an income until he turns 60. He can expect to receive a salary of R5 000 every month for the stipulated period, with a built-in annual increase only if this option is included in the policy.

Retirement annuities

These are discussed in detail on page 26.

Medical insurance

Medical insurance pays out a stated benefit every time you undergo a medical procedure covered by the insurance policy. The amount depends on the procedure. For example, an appendix operation may pay out, say, R10 000, while a heart transplant may pay out, say, R180 000. In other words, the amount is calculated according to what was done rather than how much it cost.



So, if you have your appendix removed at a state hospital and it costs R8 500, you keep the difference between R10 000 and R8 500. But if you choose a private hospital and it costs R11 000, you have to pay the R1 000 difference yourself. The insurer may not pay doctors or any other service provider directly and must pay the amount to you, the insured. This type of insurance is therefore not the same as a medical aid scheme.

Hospital plan

Insurance companies also offer a pure “hospital plan” insurance policy. This is not as expensive as a medical aid scheme membership, but payouts are limited to a stated amount (say R200 or R300) that you get paid for every night that you spend in hospital. Paying doctors’ bills and hospital costs remain your **own responsibility**, and you may find that your expenses far exceed your hospital plan payout.

SHORT-TERM INSURANCE

Different insurance policies offer different benefits and restrictions – make sure you understand your policy. Read it carefully before you sign it, and ask about exclusions, restrictions and excesses. Note: You cannot claim from more than one short-term insurer for damage to the same asset.

Homeowners' insurance

This is essential insurance for anyone who owns their own home. It covers you for **damage** (by fire, lightning, storm, wind, water, etc.) to the **actual building** and all the **fixtures and fittings** such as tiles, fitted carpets, etc. It even covers some types of accidental damage. There are many other **extensions** to the homeowners' policy – be sure to ask your broker about them! Be aware though that maintenance and deterioration through age (wear and tear) are not insurable.

The policy **may not cover** you for subsidence and landslide or riot and strike unless you ask for them to be included. There are other **exclusions** in your policy too, so make sure you understand what is and what is not covered!

The **bank** will insist that you buy homeowners' insurance when you take out a **bond**. They can arrange it for you or you can buy it yourself through a broker or direct from most insurance companies. It is your responsibility to make sure that your house is insured for the correct replacement value and that you reassess it regularly. Remember, when you do not have a home loan, or you have paid it off, insurance becomes **your** responsibility.

Household contents insurance

This covers the **contents of your home** against **damage** caused by fire, storm, flood, theft, water leakage, accident, etc. Some insurance policies have exclusions, or sections may be subject to excesses; for example, a theft excess of R1 000, which is the amount you will have to pay yourself.

Most insurance policies that cover household contents require some sort of **security system**,

e.g. burglar bars, security gates or an alarm. **Make sure that you know what your policy demands** and install what is necessary, or the company can refuse to pay out when you put in a claim.



Watch out! Make sure you **value** the contents of your home **accurately**, that is how much it would cost you to replace **everything** if your house burnt down. **Value** your goods on a **new replacement value** basis, which is how much it would cost you to buy the same (or equivalent) item. Sometimes, people think they will save on their premiums by calculating the value of only the things they think are most likely to be stolen. **This is unwise!** If you **do not value the contents of your home properly you could be underinsured** – and if you need to claim, you will be **penalised** because of the under-insurance. Ensure that you have adequate cover and adjust on a regular basis.

All risks insurance

There are some possessions which we normally **carry with us** and which **may be lost outside the home**, e.g. cell phones, cameras, sunglasses and bicycles. Most household contents policies offer an **all risks** section to cover these, but specific items may not be covered unless they are individually listed on the policy together with their insured values. **Check** with your intermediary whether your insurance includes this type of cover.

Motor insurance

There are a number of **different types** of motor vehicle insurance, but whichever you choose, you need to make sure you **value** your vehicle **properly** when you take out insurance. The value affects not only your **premium**, but also your **claim**.

Unlike household contents, the **value** of a motor vehicle **decreases** every year and is determined mainly by market forces – in other words, how much you could get if you sold it. However, the rate at which it devalues is also affected by things like mileage and maintenance. It is important to **adjust the insured value every year** so that it is accurate. **If you fail to do this you will be over-insuring (and paying too much).**

Factors affecting your cover or premium

The insured: Your cover and premium take into account your personal circumstances (e.g. age, claims history, etc.)

The type of vehicle: Premium and cover can be influenced by the type of vehicle (e.g. year, make, model and value).

The security fitted to your vehicle: Check whether the security you have fitted is acceptable to your insurer.

Where you live: Insurance claims are more frequent in certain areas due to higher risk factors.

The place where the vehicle is kept, especially overnight: Chances of theft are lower if your vehicle is locked and parked in a locked garage.

What you use your vehicle for: Is it for pleasure, driving to work and back, or for business? Inform your intermediary or insurer if anyone else would be driving the vehicle.



Types of insurance

Third Party

If you have an accident and you are responsible, your third party insurance covers injuries to other people (including passengers) as well as damage to other people's property. Should a passenger be injured as a result of your negligence, the insurance company will cover their injuries too, over and above the Road Accident Fund.

Third Party Fire and Theft

This provides cover for fire and theft, in addition to ordinary third party cover. There may be an excess that you have to pay.



Comprehensive

Comprehensive insurance is cover for damage to your own vehicle combined with third party, fire and theft cover. This gives you the broadest possible cover. You usually have to pay an excess.

Read your policy and make sure that you are properly covered.

Travel insurance

Travel insurance pays your hospital and other related medical costs if you have an emergency while travelling outside South Africa. You can also take out cover against the loss of baggage and the curtailment of your journey. This is especially valuable in the case of foreign travel, but it is very important to shop wisely for travel insurance because there can be hidden restrictions or limits.



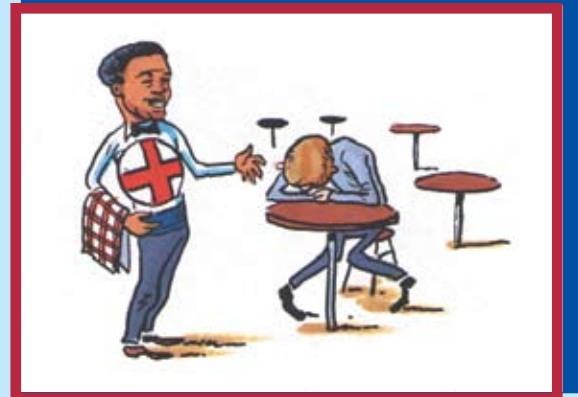
Many people buy coverage that seems inexpensive, but then they find out that they are not fully covered when an emergency arises. What you really want is travel insurance with few restrictions and complications, and expert customer service advisors whom you can call on for help in understanding the cover.

Legal liability insurance

A certain amount of “legal liability cover” is usually included in your household contents insurance policy. This protects you against claims against you personally, usually for negligence of some kind or another. For instance, someone may trip on a loose tile on your front steps and suffer severe injuries. This person may accuse you of being negligent and therefore responsible for her or his injuries, and take you to court to claim for medical expenses, loss of income, etc. As soon as you are aware of an event that has occurred that might lead to a legal claim against you, it is very important that you notify your insurer immediately.

MEDICAL AID

Medical aids are undergoing continuous change. If you belong to a medical aid today, a basic **hospital plan** typically pays out **unavoidable hospital claims**, and a separate optional **savings plan** covers **out-of-hospital** expenses. This works on an annual debit/credit basis. So, if you put R100 a month into the savings plan, you have R1 200 a year to spend on out-of-hospital expenses.



Always read your policy and make sure you know what excess you will have to pay.

RESPONSIBILITIES OF INTERMEDIARIES

Short-Term Insurance

Intermediaries are obliged to provide you with:

- **Information**, such as their name, contact phone number, physical address of the intermediary and their legal status (independent or representative intermediary); how to claim; administration fees and commission payable; written mandate to act on behalf of insurer;
- **Details of the insurer**, e.g. name, physical address and telephone number; details of how to lodge a claim and/or complaint; policy information, including type, premium (manner of payment, due date and consequences of non-payment)

Other matters of importance

Any information given verbally must be confirmed in writing within 30 days.

If any complaint to the intermediary or insurer is not resolved to your satisfaction, you may submit the complaint to the Registrar of Short-term Insurance at the FSB.

There are special conditions if you decide to pay your premium by debit order – make sure you find out what they are.

The **insurer, not the intermediary**, must contact you directly if a claim has been rejected or your insurance has been cancelled.

Short-term insurance intermediaries

Many insurance companies appoint intermediaries to collect premiums and administer claims on their behalf.

Deal only with a **reputable intermediary** and, if you are paying premiums to this person directly, make sure that he or she is permitted by law to accept your premiums. Many intermediaries are members of an association, but many are not. If you have a problem with your intermediary, you can approach the FSB for assistance. (See page 36.)

Warning



Do not sign any blank or partially completed application forms. Complete all forms in ink. Keep all documents handed to you in a safe place. Make sure you understand what is said to you and whatever you agreed on is confirmed in writing within 30 days. Don't be pressured into buying the product. Incorrect information or non-disclosure by you of relevant facts may influence any claims arising from your contract of insurance.

Sometimes the excess will be eliminated if you pay a higher monthly premium. Ask about this when you take out a policy!

Long-Term Insurance

When you are considering taking out long-term insurance, the intermediary should tell you his or her name, physical address and telephone number, the name of the insurers represented, what products are being marketed and whether he or she is independent or a representative. Ask for proof of accreditation and check that he or she has professional indemnity insurance (a **professional indemnity insurance** covers an intermediary against a claim from a policyholder for professional negligence, errors or omissions that affected the policyholder and it also covers the intermediary for any potential compensation to be paid to the policyholder in the event of losing a lawsuit).

Make sure that the product or transaction suits your needs and you know how the decision will affect you:

The intermediary or insurer must provide details of the premium you will be paying, the nature and extent of benefits and how they are accumulated. Discuss the terms of the contract and the affordability of the policy. You can usually **cancel** a policy in writing within 30 days of receiving the summary. This also applies to any changes you may want to make. Ask the intermediary for details. But if the policy has an investment component, **you** will carry any investment loss.

The insurer must send you documentation confirming policy details, including the product being purchased, the cost of the transaction (including the initial expense and commission being paid to the intermediary and where an investment element is involved, the ongoing expense). You should also receive a summary of the contract and contact number and physical address of the complaints and compliance officers of the insurer.

TAKE RESPONSIBILITY

- Discuss the possible impact of the proposed transaction on your finances, your other policies or your broader investment portfolio.
- Find out how flexible a proposed policy is.
- Where paper forms are required, sign them only once they are fully completed.
- Confirm verbal information.
- Contact the FSB Call Centre if you have any concerns regarding a product sold to you or advice you have received. (See the back page for details.)

If an intermediary advises you to cancel an existing policy, ask yourself these questions:

- *Is it really necessary to replace the policy?*
- *How does cancellation affect my benefits under the old policy?*
- *What additional costs are there?*

*Make sure the change is in **YOUR** interest!*

Be a good insurance client

Insurance is conducted on the principle of good faith. Because it is often not possible for the insurer to establish whether the client is **really** telling the truth, the client's word is accepted in the utmost good faith. This faith, or trust, is easily abused. You may, for example, be tempted to tell lies on your application form. This is dangerous as the insurer can invalidate the policy, and when you make a claim, can refuse to pay you out. Many people are dishonest when they claim from insurance companies. They don't always tell the truth after a loss and inflate their claims. But every time a client is dishonest, the insurance company loses money. This money is eventually recovered from all the other honest policyholders in the form of increased premiums.

Lying to your insurance company (including not making a full disclosure when taking out insurance) is equal to fraud or theft.

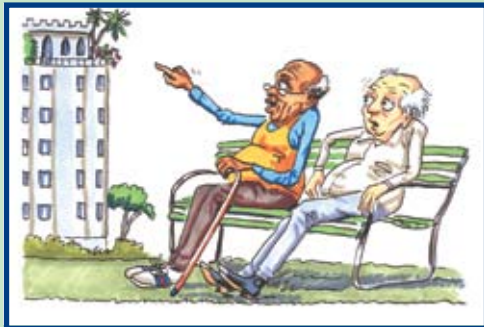
INVESTING FOR THE FUTURE

Why it is important to start planning for your retirement NOW!

There are many types of investment which build up capital or provide monthly income when you retire.

Retirement funds

Some employers offer a **retirement fund**. This may be a **pension fund** or a **provident fund**. Find out more about it and what **your** responsibilities are. When you retire, your retirement fund benefits will be paid out to you. By law, at retirement only **one-third** of a **pension fund** may be taken in **cash** (after tax) while the other **two-thirds** must be **invested** to give you a regular income. You may want to **invest** your one-third **lump sum payout** as well! If you belong to a **provident fund**, you may receive either a **monthly pension** or a **lump sum** which you should use to buy a monthly pension.



Even if you have a retirement fund which guarantees an income for the rest of your life, it is unlikely that you will have **enough** money to live on **comfortably** when you retire. **How do you make sure your retirement fund beats inflation and lasts as long as you do?** You will receive a **benefit statement** once a year, which will give you details of the current position of your fund. Review your situation regularly and make adjustments to your investments when necessary. It is important to invest extra money while you are still working.

Some retirement funds allow for top-up contributions. If yours doesn't, you should make additional investments (usually a retirement annuity or an endowment policy) as soon as you can.

The important thing is to invest as much money as you can every month to make sure your retirement fund will be enough to live on safely and securely when you are old. Avoid cashing in a retirement fund if you change your job – but if you do, transfer the money to a **preservation fund**.

Lump sum investments

If you have a lump sum to invest, decide what your objective is and choose the appropriate investment, depending on when you will need the money. Each type of investment has its own risks, rewards, time-frames and advantages, depending on your reasons for investing.

Example 1: If you become entitled to a **lump sum payment** from your pension or provident fund when you resign from a company, you should transfer it to a **preservation fund**. This would not only save you from being taxed on the lump sum now, but also ensure that it is there for your retirement.

Example 2: If you wanted to put away a medium-sized **lump sum** for five years or more, collective investment schemes may be a better option.

Example 3: If you are interested in **investing** R50 000 or more for at least five years at a time, you should consider a single premium endowment policy.

Retirement annuities

Retirement annuities are a good, safe form of investment because nobody will ordinarily have access to the funds before the selected maturity date. Even in the event of insolvency, a retirement annuity is relatively safe. The maturity date may be set anywhere between the ages of 55 and 70. You can always leave the funds to continue growing until you are ready to start drawing from them.

Annuities

Although there are many variations to choose from, there are two main types of retirement annuity. **Conventional annuities** are managed by life assurance companies and other service providers. **Living annuities** are managed by you and a **voluntary purchase annuity** is bought with a lump sum and is a good investment if you unexpectedly find yourself with money to spare – an inheritance, for example.

The conventional or fixed-interest annuity

With a **conventional or fixed-interest annuity**, you **pay in your sum of money** and, in return, you are paid a **fixed income every month** for the **rest of your life**. The insurer takes responsibility for fluctuations in the market and the risk that you may live longer than the average.

The **advantage** of a conventional annuity is that your **regular monthly income is guaranteed for life**. The **disadvantages** are that you get the **same income every month** or year, regardless of inflation and **your investment dies with you**.

There are **variations** of the conventional annuity, which address its disadvantages, but often have drawbacks of their own. These are the *conventional escalating annuity*, which provides a guaranteed income for life and a guaranteed annual increase at a specified rate – but initially pays out less than a fixed annuity – and the *conventional “with profits” annuity* which also guarantees an income for life and offers protection against inflation. Another option is a *joint life annuity*, which ensures that after one spouse dies, the surviving one will continue to receive an income. You can see that you need to look at all the options carefully before deciding what will suit your needs best.

The living annuity

With a living annuity, you – and not the insurer – take both the investment and the mortality risk. Briefly, the income depends on the growth of the sum of money invested. And that growth depends on the behaviour of the stock market – if it does well, your capital will increase; if it falls, your capital decreases.

The question to ask yourself is, “Can I manage the investment and do I have enough capital to survive market setbacks?” Chances are your answer will be “no”, unless you will have additional sources of income.

The composite annuity

Composite annuities are a mixture of conventional and living annuities and to some extent offer the best of both worlds – flexible income from the living annuity part and a guaranteed income (security) from the conventional annuity part.



The advantages and disadvantages of all these alternatives need to be balanced against each other and weighed up carefully. Your own particular circumstances and needs must be taken into account.

Get advice from a professional advisor before choosing a product. You are making decisions that will have an impact on the rest of your life!

Investment advice from the experts

- **Invest for the long term** and treat recommendations to keep changing your portfolio with caution as changes are costly.
- **Invest in quality.** Whatever you invest in, buy shares with potential. Past performance is not necessarily a guide to how an investment will perform in the future. Seek the advice of a professional.
- **Don't swap investments unnecessarily.** Find out about any charges that apply and penalties that will be incurred if you change an investment.
- **Go for growth when you are young and income as you get older.** Young people can afford to take risks while older people close to retirement need to be more cautious.
- **Stick to the basics.** Gimmicks emerge from time to time, but are based on greed. Avoid them!
- **Diversify** your investments geographically as well as according to investment type. The better the spread, the less the risk.



- **Check all charges and make sure they are explained.** Remember, each time you make a change to your portfolio, charges are incurred.
- **Don't let investments and markets rule your life.** Enjoy your health, your family and your friends. Time is far more precious than money. So don't let the state of the stock market rule your life.
- **Watch out for people who claim to be investment gurus.** Nobody can predict with any certainty what is going to happen tomorrow.
- **Take responsibility for your investments.** If you don't understand investments, appoint an advisor, but this does not mean that you abdicate your responsibility.
- **Make sure you keep up with investment developments.** A well-informed investor has better control of his or her future.
- **As your circumstances change,** you may want to change the beneficiaries nominated in your policies, your retirement funds or your will. You and your beneficiaries must make sure the company where you have your retirement fund always has your most recent details. **Advise them immediately of any change of address, telephone number, etc.**

WHAT ARE SHARES?

A share that you buy on a stock market is exactly that. If you own shares, you own part of that company.

Companies issue shares to raise the capital they need. Shares of most of the biggest companies in South Africa are “listed” on the JSE Limited (JSE), the stock market. This means they are “public companies”. Any member of the public can own a part of a listed company by purchasing its shares. All you have to do (if you have the money) is to go to a **stockbroker** and ask him or her to buy you some shares in Company X. And there you are, you own a part of that company. Other persons have owned shares, not necessarily by purchasing them but through special schemes such as employee schemes.

It works like this

A listed company issues shares to the public, usually many millions. These are then traded on the stock exchange. You decide the company is a good investment, so you buy, say, 1 000 shares.

Because the company sometimes does well and sometimes not so well, the price of the shares can vary from one day to the next.

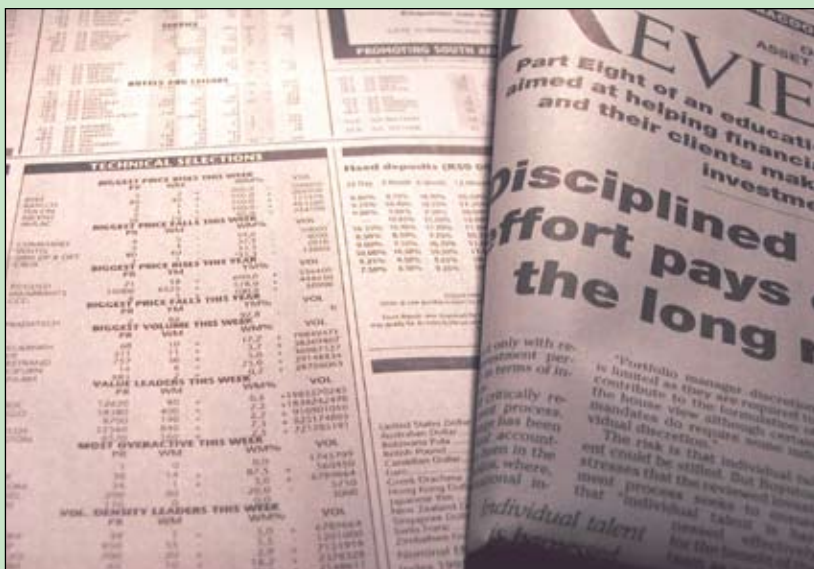
Other factors, such as the state of the **overall economy**, also affect share prices.



As a result, next month or next year, the shares you bought may be worth more (or even less) than what you paid for them.

While you own the shares, you receive any **dividends** that the company declares. Dividends are the way companies reward shareholders by making distributions of portions of the profits.

Some people have grown wealthy by buying shares when share prices are low and then selling them when prices go up.



Would you like to invest in shares?

When you invest in shares, you invest indirectly in the economy of the country.

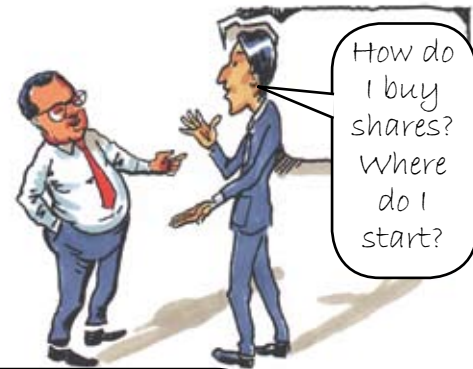
But there are a few basic rules to bear in mind.

How to get started ...



If you want to invest in shares, you first have to open a share trading account with a JSE registered stockbroker/equities trader. Investors do not buy shares directly from the JSE but through a stockbroking firm that is a member of the JSE. When you approach a member firm, one of its stockbrokers will discuss the proposed investment with you. It is highly likely that he or she will also give you investment advice. You

need to decide which shares to purchase and how much to invest, preferably with a view to a medium or a long-term investment horizon, generally of not less than three years. On your instruction, a stockbroker at the JSE member firm executes your order at the price agreed upon. Alternatively, you may impose certain price limits within which the stockbroker must buy or sell your shares, but these limits must be reasonable with regard to price and time. Most stockbroking firms have online facilities, meaning that you can place your trades using the internet (secured website) or alternatively, you can still use the telephone.

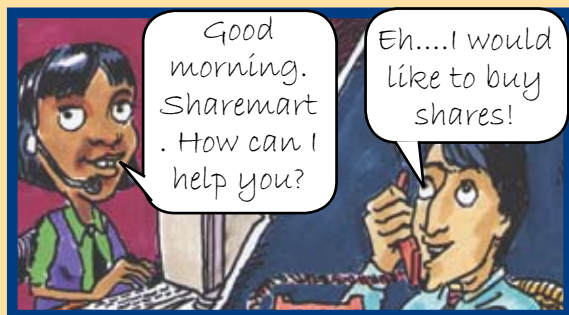


Phone the JSE (011 520 700) for the contact details of a stockbroking firm.



Open an account with them and deposit the money you have available into the account. They will allocate one of their stockbrokers to you.

Basic rules for investing in shares



- Share prices go up and down. Shares are therefore **riskier** than investing in a bank or in an investment policy.
- Find out as much as you can about the company and its operations. You can get this information from company annual reports and stockbrokers' research reports.
- If you choose a successful company, the value of your shares is more likely to continue growing.
- **Never borrow** money to buy shares and never use money you may need soon. Only use money that you have set aside especially for long-term investment.
- Shares are not "get-rich-quick schemes", they are medium to long-term investments, ideally five years or more.
- If your **share portfolio** loses value, get professional advice, don't panic by immediately selling your shares.
- A good investment plan is to put a regular monthly amount into a special **savings account**. As soon as you have enough in your account, buy shares in the company of your choice. Do this each year, and your wealth can grow.
- If you don't have specialist knowledge, don't chop and change between companies. If the general share market goes down, ride it out. If your particular company's shares go down, ask your stockbroker to explain why. If the company is doing badly, it may be wise to sell, and buy shares in a better company.
- Be cautious of buying shares in unlisted companies. Consult your advisor before you buy unlisted shares.
- Remember, there are also costs involved in buying and selling shares.
- Be cautious in buying shares in unlisted companies due to a lack of a secondary market, which could mean that one might experience delays in selling one's shares.
- Deal through stockbrokers or registered intermediaries, as that ensures that they are regulated by some authority and they uphold and comply with high ethical standards. Be careful especially if a person calls on you or advertises, encouraging you to buy shares with extraordinary interest or returns.
- The key to successful investment is to research before you buy or sell shares. Beware of hot tips.
- Remember, in the stock market, "your word is your bond". Be very clear in what you say to your stockbroker. Your verbal instruction is a binding agreement between the two of you!

COLLECTIVE INVESTMENT SCHEMES

An easier way of investing in shares and other assets

We have all heard stories of individuals becoming wealthy by investing in shares on a regular basis. But, for most of us, the stock market is a confusing, dangerous place – and we don't have the time or knowledge to build an appropriate portfolio.

Collective investment schemes provide a way for you to invest in shares, bonds, cash and other securities, without requiring a detailed knowledge of the markets. Each collective investment scheme has specific objectives and a portfolio manager who aims to achieve the objective of the portfolio through an investment strategy. This is done by investing the pool of money in the fund in a variety of underlying assets.

Types of collective investment schemes

The type of asset class of each collective investment scheme is largely determined by the objective of that unit collective investment scheme.

There are collective investment schemes that specialise in a particular market sector, such as gold shares, industrial shares or technology shares. These collective investment schemes are commonly known as **equity collective investment schemes**. Other collective investment schemes may invest in less risky instruments such as bonds. **Bonds** are “loan instruments”, usually issued by the government to raise money. Unlike equities, which may fluctuate daily, bonds offer a **fixed rate of interest** for the entire period of the bond (usually 5 years or more).

Money Market collective investment schemes invest in short-term interest-bearing instruments. These funds have a **very low risk** profile with very little volatility. An investment period of 6–12 months is suitable.

Wealth comes slowly

Although there are a number of benefits of a collective investment scheme, such as the fact that a collective investment scheme may be purchased for as little as R100 a month, it is important to remember that economic markets fluctuate. In order to gain the most from your unit collective investment scheme, equity collective investment schemes should ideally be kept for a period of 3–5 years at least. This way the daily fluctuations are ignored and one can benefit from the expected gradual long-term growth in the market.

Diversification

Balanced collective investment schemes invest in all three types of instruments – shares, bonds, and cash. This provides important **diversification**. You should always consider diversifying when investing. This is because, in the event of one company, or even an entire market sector performing poorly, your entire portfolio could lose value. However, by investing across different asset classes, as well as both locally and offshore, you can **spread the risk**.

Risk

When purchasing a collective investment scheme, it is advisable to seek the advice of a **financial advisor**. The financial advisor will be able to determine your **risk profile**, based on such factors as your age, marital status, dependants, health, and so on. Such a risk profile will determine whether an individual would prefer an aggressive investment or a more conservative type of investment. Generally younger investors should have a greater appetite for risk, due to their longer-term investment horizon and may prefer investing in the more volatile equity collective investment schemes with higher growth potential in the long term.

Diversify your investments

Do not “place all your eggs in one basket”. By investing in a number of **different types of investments**, should one type of investment, for example, shares, not perform, only the amount of money invested in the shares will be affected. Money invested in **bonds**, for example, may provide a better return, thereby reducing the amount of value in the portfolio that may be lost at any given time. Another option is an exchange traded fund. This is a security that tracks the dividend and the price movement of a particular stock market index. It represents a basket of shares, but trades as a single share on an exchange such as the JSE limited.

RETAIL BONDS

A safe, secure and risk-free investment opportunity

RSA Retail Bonds are a **savings product** issued by the **South African Government** and give private individuals an opportunity to invest in government-issued securities. Because these bonds are in effect “loan instruments” issued by the government to raise funds, they are backed by the credit of the government and represent a **low-risk investment**. Retail bonds therefore give you an ideal opportunity to invest in the country’s economy. By making retail bonds available to the general public, the government also hopes to create an awareness of the importance to save.

Types of retail bonds

Retail bonds are available in three maturities: **2 years** (the 2-year RSA Retail Bond), **3 years** (the 3-year RSA Retail Bond) and **5 years** (the 5-year RSA Retail Bond). The **maturity** refers to the **term of investment**, or the length of time before your investment capital is repaid to you. The retail bond you choose will depend on how long you want to save your money, and what the interest rates for the different retail bonds are at the time that you want to buy. Access to three different maturities allows you to choose the investment term to suit your needs.

Guaranteed returns

RSA Retail Bonds earn a **fixed market-related interest rate** which is determined at the time of purchase. This interest rate is called the **prevailing interest rate**. All three retail bonds, that is, the 2-year, 3-year and 5-year, earn different interest rates which is the prevailing interest rate on the date of purchase. Because the interest rate for retail bonds is fixed for the whole investment period, you know exactly what the return on your investment will be. You also have the option of reinvesting the interest at the same rate as the retail bond, thereby ensuring the **guaranteed growth** of your capital.

Affordability

Retail bonds are very affordable. A **minimum** of only **R1000** is required to purchase a bond. **No fees, commissions or charges** are payable when buying these bonds, making them an even more attractive investment opportunity. The only charge is a penalty charge payable if you withdraw any portion of the amount before the expiry of the investment period.

How to get started...

You can buy an RSA Retail Bond at any one of the following places:

- By purchasing online on the RSA Retail Bond website at www.rsaretailbonds.gov.za
- By posting an Application Form to the National Treasury: The Head, Asset and Liability Management Division, The National Treasury, Private Bag x115, Pretoria, 0001
- At any Post Office.

If you wish to buy an RSA Retail Bond, you will need:

- A valid South African ID book
- Your personal bank account details
- A completed Application Form
- An amount not less than R1000.

Remember that you need to be a South African citizen or permanent resident to be able to buy an RSA Retail Bond.

For further information about retail bonds call the RSA Retail Bond Helpline at **(012) 315 5888**, or visit the RSA Retail Bond website at www.rsaretailbonds.gov.za

Wills and trusts

A **will**, or a “**last will and testament**”, is a **document** in which you describe exactly what you want to happen to your **worldly goods and assets** after you **die**. To be **valid**, a will has to be drawn up correctly and you and two **witnesses** must sign it at the same time.

Your will is part of your overall financial management plan. If you die **intestate**, i.e. without a valid will, your assets can go to the wrong people – and the process can take ages. A clear and practical will ensures that your assets are distributed quickly and according to your wishes after your death and it is best to have it drawn up **professionally**. A lawyer can do it, or your insurance company, your bank, or a trust company. You must stipulate an **executor**, which, in the case of a very simple estate, could be a family member.

The purpose of a **trust** is to provide **security** for your dependants. Ask your lawyer or financial advisor. It can own property, receive donations and inherit money from your estate when you die. What makes a trust so secure is the fact that its decisions are taken by the **trustees** you appoint when you create it.



There are basically two kinds of trust:

- An “**inter vivos**” (living) trust, created while you are still alive.
- A **testamentary trust**, created after your death in terms of instructions in your will.

Whichever type you choose, a trust protects the interests of your dependants. If you think it could benefit your broader financial plan, talk it over with your financial advisor, bank or lawyer.

The role of a Credit Bureau

Credit bureaux are companies that keep a record of all consumers who use credit as well as details of their credit history. The credit bureau provides this information to assist companies to decide who is eligible for credit. A **good credit record** is an asset as it reassures the company that you are a good credit risk. However, if you have had a **judgement** against you for money you owe or you have been declared **insolvent**, this will be on your record too. All credit bureaux must be registered with the NCR.

You can get a copy of your credit information from any registered credit bureau free of charge every twelve months. If you request information to see why you have a bad credit rating more than once within twelve months, you will be charged a minimal fee. Such a fee may not exceed R20.

If there is something on your record that is incorrect or that you disagree with, the credit bureau will investigate it for you. They will correct your record if they find any mistakes.

If you are not satisfied with the assistance given to you at a credit bureau, you have the right to complain to the **Credit Information Ombud**. The Ombud will be able to tell you what steps you can take to have your name cleared, and how long it will take.

Contact details of the Credit Information Ombud:
Tel: 0861-662-837
E-mail: ombud@creditombud.org.za.

If your complaint has not been resolved, contact the NCR: Tel: 0860 627 627
E-mail: complaints@ncr.org.za or info@ncr.org.za

INVESTMENTS AND TAX

Tax is something that we all have to pay whether we like it or not. Generally, any earnings are taxed – for example, salaries. Returns on investments and benefits paid on financial products are also taxed, but in different ways.

There are two kinds of tax payable on returns offered by the products discussed in this book. In the case of both, you are sometimes allowed to deduct certain expenditure to reduce the tax that you have to pay. If the deduction is larger than the taxable benefit, the loss can be deducted from other taxable income of the same type.

Income Tax is paid on **earnings** in general and is payable only when you get the money or when you become entitled to it. Although all **interest** earned is taxable, total interest below a certain amount is tax-free. This includes interest earned on a bank deposit. **Capital Gains Tax** is payable on any **profit** you make when you sell an asset and must be paid when you receive the increased value. It is lower than income tax.

LONG-TERM INSURANCE

Different products have different tax bases.

Risk benefits

These are the benefits paid on death and disability. Premiums may not be deducted for income tax purposes, but death benefits and disability benefits which are payable in a lump sum are tax-free. Disability benefits, payable in instalments to replace salary, are subject to income tax.

Endowment benefits

The returns earned by the endowment fund on the assets of these products are subject to both capital gains tax and income tax. Because the returns are taxed in the hands of the insurers, you do not have to pay any further tax when they are paid to you.

Annuities

Annuity products pay you monthly instalments. The contribution is not deductible and a portion of the annuity is taxable as income. A *compulsory* annuity must be bought with the proceeds of a retirement fund and is taxed.

RETIREMENT FUNDS

Pension Funds and Retirement Annuity Funds

All contributions made to these funds are tax-deductible (subject to limits). The benefits must include the purchase of an annuity and a portion may be taken as a lump sum. The benefits are taxable, apart from a portion of the lump sum which is tax-free.

Provident Funds

Contributions to these funds are not tax-deductible. The benefits may be a lump sum and may include an annuity. Apart from a limited portion of the lump sum which is tax-free, the benefits are taxable.

SHORT-TERM INSURANCE

Premiums payable on short-term insurance are not tax-deductible. Benefits paid to you in the event of a claim are tax-free.

COLLECTIVE INVESTMENT SCHEMES

There are three kinds of returns from collective investment schemes. The first is an interest return which is taxable as income. The second kind is rental distributions on collective investment schemes in property that are also taxable. The third, the increase in the value of the units, is taxable as a capital gain, when you dispose of them. The collective investment scheme management company will provide you with a statement showing the taxable returns you receive every year.

SHARES

Shares have two kinds of returns. Firstly, there are dividends which are not taxed other than in special cases. Secondly, there is an increase in the value of the share which is taxed as a capital gain. However, if you were to buy and sell shares very often or regularly, you may be considered a trader and you will then have to pay income tax on the increases in the value of the shares, which is higher than capital gains tax.

Tax can be complex and it is always advisable to ask the intermediary for details of tax implications when you invest in any financial services product.

FIVE STEPS TO FINANCIAL FREEDOM

Financial security for yourself and your family does not just happen – you have to be motivated ... and disciplined ... and you have to have a strategy.

1. Knowledge

There is no substitute for knowing the facts. Financial knowledge comes in two parts: educating yourself generally and knowing your financial situation specifically.

Financial knowledge is not difficult to acquire. It is available everywhere: in newspapers, on TV, radio and the Internet, and through your financial institution's promotional publications. For most people, financial ignorance has nothing to do with lack of access and everything to do with attitude. We often say, "This is for other people." But to think this way is to do yourself a disservice. Financial matters affect us all in direct ways. It therefore makes sense to become informed and to **understand** the processes that can enrich or impoverish us.

2. Goals

We all need goals. Without something to strive for, life becomes a grind. This is as true financially as it is in other areas of life. Most of our goals require money, so reaching them means we must have a financial plan to get there. There are three types of goals: long-term (e.g. to retire with enough to live on comfortably); medium-term (e.g. to be able to pay for a child's university education, or extend a home, or start a business); and short-term (e.g. to budget effectively to control one's spending to establish a healthy saving pattern). Take a close look at your own goals and work out the financial implications. With realistic goals to strive for, financial discipline and self-control become much easier.

3. Honesty

Knowledge and honesty go hand in hand. Knowledge without honesty is unreliable, and will do nothing to realise your goals. Honesty means assessing yourself, your needs and your areas of weakness. It means

facing facts. Are you in debt over your head? Admit it to yourself. Are you free from debt, but unable to achieve your goals due to lack of commitment? You can change your habits and achieve your goals, but it requires an honest look at yourself. Only if you are honest about your shortcomings will you be able to overcome them!

4. Discipline and self-control

These are the least popular requirements for financial freedom. Financial freedom does not mean having unlimited money. It means **managing** what you have in such a way that you are free from worry, guilt and fear.

Applying discipline where it is required reaps great rewards. Learn to say "no" to yourself. If you keep your goals in sight, it is easier to be disciplined. The people who find self-discipline hardest of all are those with no clear goals and no plan for how to achieve them – or goals that are so distant and unrealistic that they are removed from daily life. Revisit your goals regularly, apply discipline and self-control, and you stand a good chance of realising your dreams.

5. Compassion

Acquiring wealth can be a worthwhile goal, but on its own it cannot bring satisfaction or fulfilment. True happiness comes from using our resources – whether money, energy or talent – to make a positive difference to the world around us. There are plenty of ways to do this. Some people donate money to charities every month because they approve of the work that the charity performs. Others use their money to give someone else a leg up – perhaps a younger person with ambition, or a mother struggling to make ends meet. Others, again, prefer to put a small part of their wealth back into the community they grew up in. It all makes the world a better place!

RECOURSE

or: What To Do When You Suspect You Have Been Cheated

We are often very reluctant to complain. We don't want to "make a scene" or we don't want to cause trouble for anyone. As a result, we don't stand up for our rights.

In South African law, the consumer has many rights, and there are many ways to exercise these rights. The financial services industry, in particular, has gone to great lengths to ensure that every client has a voice that will be heard.

If you feel you have been cheated or treated unfairly, it is your right to complain. The person to start with is your intermediary. If this person does not resolve your problem immediately (or if you do not trust him or her) you should complain directly to the company you are dealing with.

Should none of the above options succeed, you can approach one of the organisations listed below, depending on the nature of the complaint.

LIFE INSURANCE POLICY:

For complaints about life policies, funeral cover and other long-term insurance matters contact **The Ombudsman for Long-Term Insurance:**
Private Bag X45, CLAREMONT 7735
Tel: (021) 657 5000; Fax: (021) 674 0951
Toll-free: 0860 103236
E-mail: info@ombud.co.za

SHORT-TERM INSURANCE POLICY:

For disputes between members of the short-term insurance industry and consumers, contact: **The Ombudsman for Short-Term Insurance**
PO Box 32334, BRAAMFONTEIN 2017
Tel: (011) 726 8900; Fax: (011) 726 5501
E-mail: info@osti.co.za

RETIREMENT FUNDS:

If you have a problem with your pension, provident, preservation or retirement fund that you have not been able to resolve with your employer, you may lodge a complaint in writing with the **Pension Funds Adjudicator:**
PO Box 23005, CLAREMONT 7735
Johannesburg:
Tel: (011) 884 8454; Fax: (011) 884 1144
E-mail: jhb@pfa.org.za

Cape Town:
Tel: (021) 674 0209; Fax: (021) 674 0185
E-mail: enquiries@pfa.org.za

FINANCIAL SERVICES PROVIDERS:

The **Ombud for Financial Services Providers (FAIS ombud)** was established by the Financial Advisory and Intermediary Services Act 37 of 2002 (FAIS Act). For complaints about financial service providers contact:
The Customer Contact Division (FAIS ombud) at
Tel: 0860 324 766
E-mail: info@faisombud.co.za

BANKS:

Should you have a particular problem regarding service from your bank and if your bank does not resolve the

problem to your satisfaction, you may approach the office of the Ombudsman for Banking Services
PO Box 5728, JOHANNESBURG 2000
Tel: 0860 800 900; Fax: (011) 838 0043
Financial Ombudsman Call Centre: 0860 662 837
E-mail: info@obssa.co.za

SUSPECTED ILLEGAL BANKING BUSINESS:

(Deposit-taking by entities other than registered banks)
Registrar of Banks
PO Box 8432, PRETORIA 0002
Tel: 0860 800 900; Fax: (012) 313 3758
E-mail: wilfred.lautenberg@resbank.co.za

CREDIT:

The National Credit Regulator (NCR) was established in terms of the National Credit Act No 34 of 2005 to register credit providers, credit bureaux and debt counsellors. For complaints or more information:
No 127, 15 Road, Randjes Park, MIDRAND
Toll share: 0860 627 627 or (011) 554 2600
Fax: (011) 554 2871
E-mail: info@ncr.org.za or complaints@ncr.org.za

Credit Information Ombud

For complaints about credit bureaux or credit providers and for information on the credit industry
Tel: 0861 662 837
E-mail: ombud@creditombud.org.za

PYRAMID SCHEMES OR MISREPRESENTATION:

Consumer Affairs Committee
Department of Trade and Industry
Private Bag X84, PRETORIA 0001
Tel: (012) 394 1551/52; Fax: (012) 394 2551/52
E-mail: ebimo@thedti.gov.za or dinki@thedti.gov.za

The Office of Consumer Protection (OCP)

For complaints about unfair business practice, pyramid schemes and general consumer complaints and information - contact the DTI Consumer Contact Centre at 0861 843 384

If your complaint does not fall into one of the above categories you can contact the Financial Services Board's Call Centre at 0800 202 087.