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Start your money journey

A financial literacy handbook

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Note: Financial service providers (FSPs) quoted in this guide by no means indicate that the FSCA views them as preferred or that the FSCA endorses their organisation or entity.

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The Start Your Money Journey – A financial literacy handbook was developed by Helen Ueckermann, an independent writing professional, on behalf of the FSCA. The handbook forms part of ongoing consumer financial education projects to help South Africans make the most of their money and live a financially well life.

Introduction

Learn how to spend your money wisely, get out of debt, save and invest for the future. Start by reading this resource to take control of your financial future.

This financial literacy handbook will teach you to speak the language of personal finance. It will also help you to manage your money in a way that will improve your life.

With expert guidance, tips, and relatable stories from Simphiwe Dlamini and her family and friends you too, can learn to become a money-savvy person. Everyone can!

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Chapter 1

MY JOURNEY TO FINANCIAL WELLNESS

Chapter 1: My journey to financial wellness

1.1 Introduction – Mapping out my financial journey

Meet Simphiwe Dlamini.

Simphiwe is a 28-year-old single parent of three-year-old Lebo. She works as a secretary and earns R9 500 a month (after tax).

Like everyone else, Simphiwe has dreams, big and small. She wants new clothes and she would love to buy a car. In addition, she wants to get out of debt, and save money for Lebo's education – she just does not know how to go about this.

Her biggest dream is to see Lebo going to university. She knows that it is best to start saving the moment a child is born, but she has not been able to save much yet.

As you will see in this resource, Simphiwe has some financial challenges to overcome. We will meet her again in a short while. However, let us think about Simphiwe's dreams for a moment.
Every journey begins by imagining a destination, then making a plan to get there. Simphiwe knows the road will not be smooth. There will be potholes and roadblocks along the way, but she needs to keep going.

Your financial journey could be similar. Fortunately, this handbook is the roadmap you need to help you find your way.

How do I plan my journey to financial wellness?

Everyone wants to have enough money to do what they want to do – and let us be honest, many of us want more than 'just enough' so that we do not have to struggle. For most of us, there is a gap between what our dreams look like and how much money we have in our wallet.

The good news is that we can work on closing that gap and becoming financially well.

Let us look at what financial wellness is.

It is not about becoming rich overnight. It is about gradually building your wealth by spending wisely, saving un-tiringly and getting through various life experiences financially prepared.

Some of these experiences include the loss of income, a death in the family, marriage or divorce, buying a home, or having a baby.

Financial wellness does not mean freedom from worry. But it does mean managing your money in a way that frees you from financial stress. Managing your finances is a skill and you can get better at it over time, even if you have made some poor financial choices in the past. You can always learn to make better choices in future!

1.2 Money and emotions – what is the connection?

Perhaps you are anxious and stressed because you do not know much about financial matters. If you are reading this handbook, you are already taking steps to change your approach to money.

Some of your beliefs may have been formed in childhood, while some may have come from what your teachers or friends tell you. But the most important belief you should hold onto is that you have the power to change your financial circumstances.

Answer these questions:
What did I learn about money when I was a child?
How does money make me feel?
Do I have some money habits that are causing problems for me?
What does financial success look like to me?

It is important to understand your emotions when it comes to money. It would be good if every financial decision we made was rational, but most of us have an emotional response to our finances.

Do any of these scenarios sound familiar?

- I cannot say no to my family members when they ask to borrow money.
- I overspent and now I feel guilty.
- I have tried to stick to a budget, but I can't.
- Women/men/children do not handle money in my family.
- Status means a lot to me.
- I am scared that I will never get out of debt.
- I would rather not talk about money.
- Nobody taught me how to manage money.
- I am thinking about getting married to become financially secure.
- My friends all have good jobs, but I am unemployed.
- I spend money when I feel unhappy.
- I am trying to fix the bad choices my parents made with money.
- I cannot face my financial problems.
- Just as I seem to be getting on top of my money challenges, an unexpected emergency comes up.
- No matter how much I earn, my expenses always seem to be more than my income.

People often feel fear, guilt, shame, envy or anger when it comes to money. Emotions are not bad. They are clues about what is important to us. However, we should not let them influence our spending behaviour negatively.

What does financial success look like to me?

Everyone has a different idea of what financial success looks like.

It could be to have a big family, a beautiful house in the suburbs, a comfortable retirement, or enough money in the bank to live a stress-free life.

No two people are alike, so success looks different to everyone.

You can start by creating a 'vision board' – a collage of photos and words that sum up what success means to you. All you need is a sheet of paper or a poster, some markers, scissors, glue and some old magazines or newspapers. Cut out images or words that inspire you and glue them to the board. Remember that "more" is not necessarily better; try and prioritise your long term needs rather than your immediate wants. There's more information about "needs" and "wants" under point 1.5 below.

Seeing your dreams take shape in front of you will inspire and motivate you to achieve them. Creating a vision board is all about imagining what your life could look like, so be bold and fearless.

You can also do this exercise with the whole family, and make some family plans, too!

1.3 Planning for my future

Personal financial planning helps you to identify the smartest ways to spend, pay off debt, save and invest your money to reach your goals.

What are goals? In simple terms, they are targets that you know you can achieve! Goals typically fall into three categories: having 'stuff' or 'things' like a car and a house, having 'experiences,' like travelling or studying in another city, or 'helping others' contributing some of your hard-earned wealth by, for example, sending a sibling to university or donating to your community.

All these goals require budgets, like saving up to study further, paying lobola, going on a dream holiday, or building your dream house.

Take a moment to visualise what you would like your future life to look like. Then draw up short, medium and long-term goals.

Short-term goals are usually between six and 12 months. An example is paying off a clothing account (e.g., R200 per month).

Medium-term goals are between 1 to 5 years. For example, saving up for a deposit of R6 000 towards a second-hand car, which could take you more than a year.

Long-term goals are anything from 5 years to 20 years. Examples include putting together a deposit for a house (say a total of R15 000, which may take a number of years) or increasing retirement savings, including pension or provident fund or retirement annuity contributions. (For more on retirement planning, see chapter 4.)

When you set your goals, it is important to make sure they are **SMART**. Ask yourself if they are **S**pecific, **M**easurable, **A**chievable, **R**ealistic and **T**ime-based.

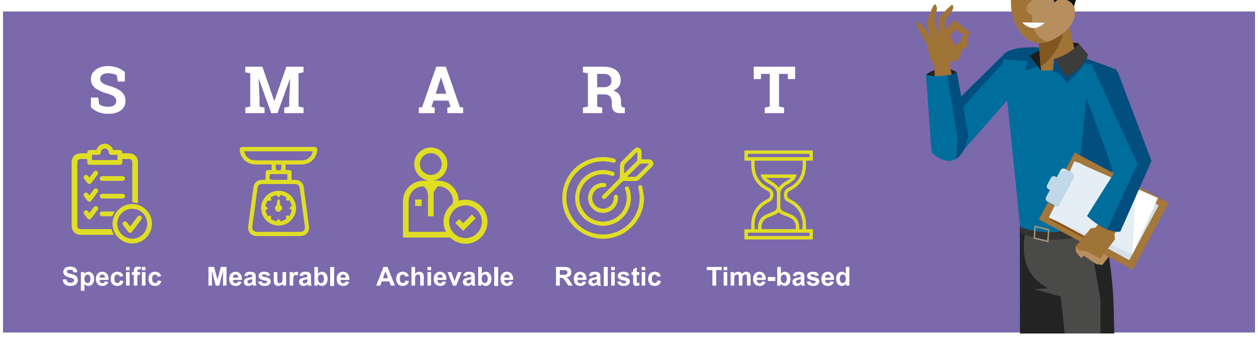
Once you know what your goals are, you can start to plan how to achieve them. An authorised financial advisor can help you to draw up a financial road map.

This plan can help you to:

- Understand how and why you spend money.
- Set financial goals that are realistic and will work for you.
- Take steps to help you reach your goals, like drawing up a budget.
- Make better financial decisions.
- Make small sacrifices now.
- Use financial products and financial services to improve your life by saving for your short, medium- and long-term goals, for example your child's education and retirement.
- Use financial services to learn more and overcome challenges. By being more educated about financial services you can make better informed decisions around your finances.

Financial advisors will either charge a fee or commission (or both) for their services – the average amount you can expect to pay is anything between 0.3% and 1.25% of the value of your investment per year, which may include advice and administration of your financial portfolio. Some financial advisors may charge an upfront lump-sum fee for the initial analysis (for more on financial advisors, see chapter 6).

Before dealing with a financial advisor, make sure they are authorised by the Financial Sector Conduct Authority (FSCA). Visit www.fsca.co.za or call 0800 20 FSCA (3722) to verify that that they can sell you financial products and services as well as which products they can sell you.



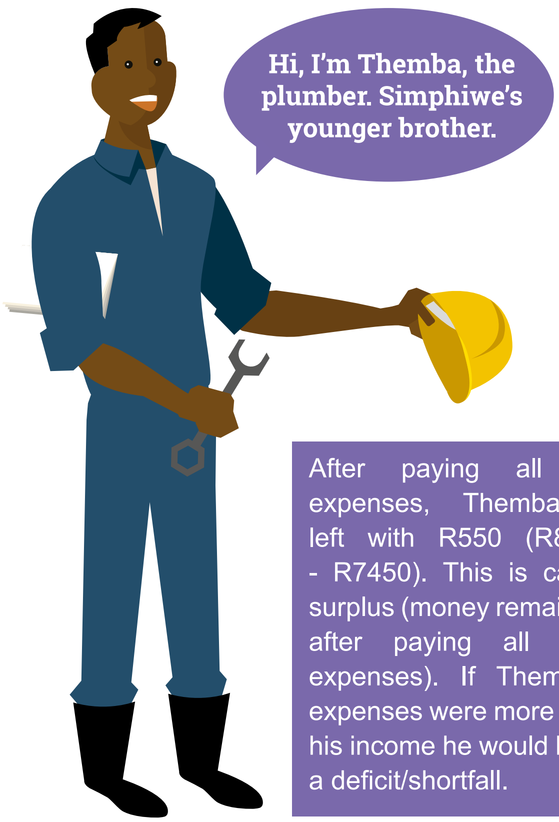
1.4 Managing expenses and budgeting

Managing your expenses is about controlling what you do with your income. Drawing up a budget should not be seen as a chore. Instead, think of it as a powerful way to help you get what you want in life.

A budget is a plan that sets out how you will spend your income. If you are employed, income is usually the salary you get from your employer at the end of the month. Not everyone has formal employment – some people run a small business, have a side hustle, get pocket money from a parent, or receive a social grant.

Can I draw up a budget if I do not receive a monthly salary?

The answer is yes – you can always draw up a plan to manage the money that you have. But your budget will look a bit different to that of someone with permanent employment. If you do not receive a salary, work out how much money has come in during the past year and divide that by 12. This helps you to calculate a monthly average to work from.



After paying all his expenses, Themba is left with R550 (R8000 - R7450). This is called surplus (money remaining after paying all your expenses). If Themba's expenses were more than his income he would be in a deficit/shortfall.

Simphiwe's younger brother, Themba, is a self-employed plumber. His earnings vary widely – they can be anything from R8 000 to R15 000 a month. In 2020, he earned a total of R134 226 during the year. If he divides this by 12 months, he can say he has a monthly income of R11 185.50. However, when he draws up a budget, he will need to make sure that his expenses do not exceed the LEAST he could earn in a month, like R8 000.

He should also save as much as possible in case he has a bad month, for example, if he gets sick and is unable to work for a week.

Being self-employed can be financially risky and it is essential to have savings to buffer the short-fall. Whether you are employed full-time or are self-employed, it is a good idea to have at least three months' salary saved up for emergencies.

Themba's budget example:

Income	Expenses
R134 226 per year ÷ 12 months = An average of R11 185.50 per month	R4 000 Rent
But remember that the least Themba can earn per month is R8000 considering deductions such as income tax and UIF	R150 Funeral policy
	R250 Life cover
	R200 Cellphone
	R800 Groceries
	R600 Transport
	R550 Medical aid
	R500 Entertainment
	R400 Clothing
	Total
Even if Themba earns only R8 000 (after tax), he will still be within his budget.	**R7 450.00**

1.5 Drawing up a budget

Nowadays, there are a number of budgeting and expense-tracking apps that can help you to budget. But it is often better to start with an old-fashioned pen and paper and write down everything yourself.

Example:
A budget consists of your income (what you earn or money coming in) minus your expenses (what you have to pay for). If you get paid weekly, draw up a weekly budget. If you get paid monthly, it makes sense to work with a monthly budget, although you should also remember to make allowances for adhoc expenses, such as your annual license renewal for your car or TV.

Look at Simphiwe's budget below. It will assist you to draw up your own budget.

Notice that some of the listed costs are **fixed** and do not change, like rental, bond, car repayments and contributions to her emergency savings to help cushion her against life's unexpected expenses or loss of income. Other expenses are **variable,** which means they do change, like transport costs, airtime and food. There are also **discretionary costs**, like entertainment expenses.

Begin with your fixed monthly expenses. Include any debts that you are paying off each month, like loans, store-card or credit-card debt. Work out how much you have for groceries, electricity and so on. Finally, decide whether you can afford entertainment, like going to a restaurant or a movie.

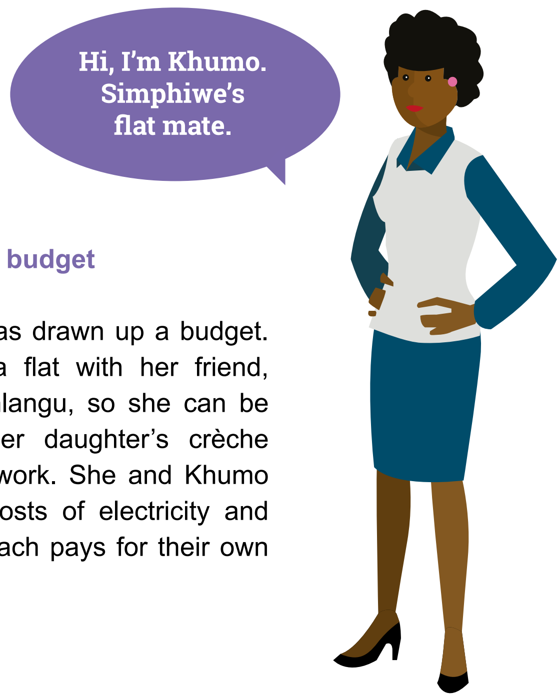
Now add up your expenses and subtract them from your income. How much is left over?

Are your expenses greater than your income? If they are, you will need to make some changes.

What are you buying that is just nice to have and not really needed? Your **needs** are the things you cannot survive without, like food, as well as water and electricity, and you have to pay rent to be able to live somewhere. Your **wants**, though, are things you can actually do without but enjoy spending on – like new clothes or takeaways!

Remember that no budget is final. You can always adjust it if you get more money, or if there is a planned or unplanned expense you need to add, like buying a laptop or paying a doctor's bill.

Setting a budget does not mean that you will not have money for the occasional luxury or day out. You can still do the things you enjoy, within your budget. The end result will be more money in the bank, which puts you in a better financial position.



Simphiwe's budget

Simphiwe has drawn up a budget. She rents a flat with her friend, Khumo Mahlangu, so she can be closer to her daughter's crèche and to her work. She and Khumo share the costs of electricity and water, but each pays for their own groceries.

Month: 1-31 October 2021	
INCOME	
Salary (after tax)	R9 500
TOTAL INCOME	**R9 500**
EXPENSES: Fixed costs	
Rent	R3 500
Money for mother	R100
Cellphone (fixed contract including airtime)	R200
Crèche fees	R1 300
Health insurance and funeral policy	R600
Transport	R500
Stokvel	R100
Emergency savings	R100
TOTAL FIXED COSTS	**R6 400**
EXPENSES: Changing Costs	
Clothing account (total owed: R2 800)	R200
Furniture account (total owed: R7 200)	R1 250
Revolving loan (total owed: R1 300)	R275
Groceries	R800
Water and electricity	R150
Toiletries/cosmetics	R200
Take-aways, etc.	R100
TOTAL CHANGING COSTS	**R2 975**
TOTAL INCOME	**R9 500**
LESS TOTAL COSTS (Fixed/changing) (R6 300 + R2 975)	**R9 375**
Money left over (positive balance/surplus)	**R125**

What does it mean?

FIXED COSTS:	SURPLUS:
Costs that are the same every month and do not change. For example, your monthly rent or bond payment. It is fixed for a certain amount of time.	Money you have left over after you have paid all your accounts and bills.

What do you notice when you look at Simphiwe's budget?

Simphiwe is managing, but she only has R125 left over at the end of every month. If the price of food or transport goes up, Simphiwe is going to struggle to get by. If she has just one challenging month, with extra expenses or a crisis, she will not have enough money to service her debt. This means that Simphiwe has started to live beyond her means.

How can Simphiwe improve her financial situation?

Simphiwe should be able to pay for some luxuries because she works hard. But does she need takeaways and new cosmetics every month? She could think about having a takeaway pizza every second month instead of every month.

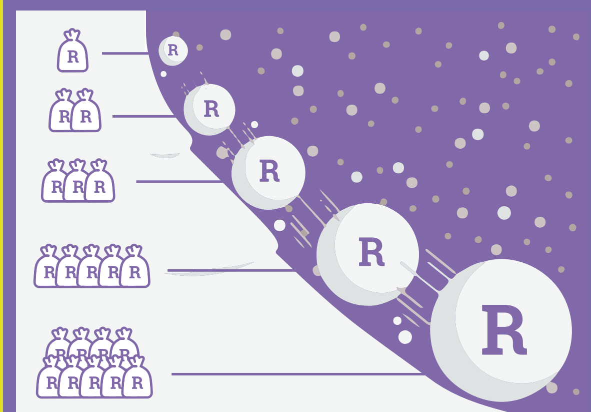
Her only income is her salary, so it is easy to draw up a budget. But she can do more. She could consider a 'side hustle' to increase her income, like selling beauty products on a part-time basis or applying for a social grant for her unemployed mother, whom she helps to support.

You will notice that Simphiwe has some debt amounting to **R1 725** per month.

- She was lured by an in-store salesperson to open a clothing account and she keeps on spending. She received compliments from her friends when she bought new shoes and a handbag. Soon, she was buying beautiful items every month.
- She also has a furniture account. Her clothing and furniture accounts are six months' interest-free accounts, which means if she does not pay these accounts within six months, she will be charged high interest on the amount owed.
- Lastly, she has a revolving loan.

The best thing Simphiwe can do is pay off those debts that are attracting interest as soon as possible, which will free up that R1 725 each month.

A good way to go about that is by putting the **"snowball effect"** to work which is paying extra money into your smallest debt every month so that you can settle it more quickly, then moving on to the next debt. Paying off her debts in this way will motivate Simphiwe to become debt-free as soon as possible.



SNOWBALL EFFECT

Simphiwe's smallest debt is the revolving loan of R1 300. This is also the debt on which she pays interest and administration costs and fees. If she pays this debt off first, she will simultaneously be freed of paying the accompanying costs and fees, so she should pay it off first.

Her clothing account is a six-month interest-free account, so she can pay this off once her revolving loan has been paid. She can add the R275 she used to pay into the revolving loan every month to her R200 clothing account payment, which will amount to R475.

When she has paid off her clothing account, she can add the extra R475 to her furniture account payments of R1 250.

If Simphiwe can get out of debt, she will have enough money to start saving. She can set more money aside for emergencies and start saving for Lebo's tertiary education. She should make saving a regular line item in her budget – even if she can save only R50 a month.

Now this is being money savvy!

What are emergency savings and why is it so important to have?

Emergency savings give you a barrier against unexpected expenses. You can save for emergencies in the same way you would any other financial goal. Put together a plan and then put it into action. Simphiwe has added it to her budget as a fixed expense so that she can save every month without fail.

Saving for emergencies is not easy – it is recommended that you save enough to cover all your expenses for three to six months. So how much should you save?

Simphiwe's expenses are R9 375 per month. She must multiply this by 3 to get to the amount she needs in her emergency fund to cover three months of expenses.

R9 375 x 3 = R28 125
If she gives herself two years to reach that goal,
she needs to divide the amount she has to save by 24 months:
R28 125 / 24 = R1 172

As you can see from Simphiwe's budget, she currently only contributes R100 per month into her emergency savings. In order to achieve her goal as quickly as possible, she will have to make some sacrifices. However, she can reach this goal sooner if she pays off her debts.

Let us look at Simphiwe's clothing account. The store lent her money to buy some new clothes. Let us say she does not manage to pay back the amount she owes within six months and has to pay interest. She owes the store R2 800 and they charge 10% interest each month, compounded at the end of the month. After three months, she will owe the store R3080.00.

She can also receive interest – for example, her bank will pay her interest if there is a positive balance in her account. Let us look at what interest could do to help Simphiwe if she had a savings account. If she put R1 200 into an account that offers her a 5% fixed interest rate, she will have R1 260 in her account after a year.

Did you know?

Interest is the fee that you pay to use someone else's money. Whether you borrow from the bank or a company or an individual lender, you pay someone to be able to use that money.

1.6 How to stick to a budget

The golden rules for sticking to a budget are:

- Keep your goals in mind. Write them down at the top of your budget page!
- Challenge yourself to spend exactly what you plan to spend each month or less.
- Never borrow money to cover your expenses – rather try to live within or below your means.
- Update your budget every month because life happens.
- If you do not stick to your budget, don't give up or beat yourself up! Just start over again.
- Make budgeting fun – see if you can find a surplus (extra money left over at the end of the month) to take over to next month or even save.

For a copy of the FSCA's Savvy Savers Budget Booklet or to download a free budget template visit www.fscamymoney.co.za

Quick Tip!

Always pay your bills on time, if at all possible. It will save you money in the long run. You will not have to pay additional interest and you will boost your credit score (which means you can apply to buy bigger assets like a car or a home in future).

What does it mean?

Asset: An asset is a resource that can be converted into cash, like a home, an investment, equipment and so on.

Meet Ms Ncumisa Fandesi-Ndefu,

founder of a bulk-buying Facebook group

Ms Ncumisa Fandesi-Ndefu is the founder of a social media-based group that shares tips on how to spend money wisely.

We spoke to her about the money lessons she has learnt running her Facebook group.

Q. What is the best advice you have ever received when it comes to being more aware of your finances? And what is the best advice you have given?

A. Do not spend like you're dying tomorrow! My mom used to say this whenever I would buy something she considered useless.

Q. How do you begin the process of taking control of your finances, and what are some of the practical steps you can take?

A. Write your debt in a notebook and contact everyone you owe to make an arrangement to pay, then *honour* that arrangement. The ability to get credit does not mean you must use it!

Q. The benefits of knowing how you spend your money are priceless, but how would you explain this to someone?

A. I am trying to build a community of women that does not live from payday to payday – women who enjoy seeing money in their accounts and who know that if you have to pay for something over six months, it means that you cannot actually afford it.

Q. How do you begin the journey to financial literacy?

A. Have an honest conversation with yourself about your own finances. Understand the implications of each and every decision you make about your future and make smarter financial choices. If you're in debt, it's critical to confront this, and I often advise women to make a note of every debt because it is one thing to know how much you owe someone, but it is another to see what your collective debt amounts to.

Chapter 2

A LIFETIME OF FINANCIAL GROWTH

Chapter 2: A lifetime of financial growth

2.1 Introduction

In this section, you will learn more about how to make your money work for you. There are different ways to grow your finances – but some of these carry some risk. The biggest risk, though, is not taking advantage of some of the tools you have to increase wealth.

2.2 Setting saving goals

Simphiwe is worried. She has almost managed to pay off her debt – she just has a couple of monthly payments to go.

Khumo has told her she should start saving, even if she manages to put away just R50-R100 a month. But Simphiwe is not sure that it makes sense to put a little money away every month without seeing any reward for it.

What do you think?

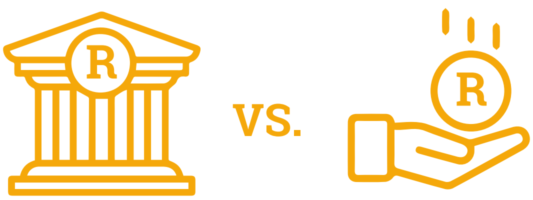
Financial growth is a slow, steady process that happens over time. Having some money to save or invest is the first step towards gaining true financial independence.

You don't need a lot of money to start, just start small. Very few people think they have enough money to save until they start budgeting and realise that they *can* find some money they are willing to save and/or invest.

Example:
Start by saving a little each month until you reach R1000. This is the minimum amount that you will need to invest in RSA Retail Savings Bonds. This is a low-cost, easily accessible and safe option for the man-on-the-street that generates competitive returns is an investment into RSA Retail Savings Bond. Issued by the South African Government, these bonds are issued in a way to help all South Africans to save for their futures. You can increase this amount as you build up your savings.

Start with small amounts of money and then increase the amount as you become more comfortable with the process and start making saving a habit. In this way, you will grow your money and attain a measure of financial freedom.

Let us look at where and how to start.



2.3 Formal vs informal savings

Formal savings

Formal savings refer to savings kept in a bank account, including an account in a cooperative or mutual bank. Bank staff can help you to choose the product that is right for you by providing you with all your options.

Not all accounts are alike – you can opt for a flexible, fixed-term or tax-free savings account, or a combination of these options. Examples of interest-bearing savings instruments include banking products such as savings accounts, tax-free savings accounts, call accounts, fixed-term deposit accounts and notice deposits. These products are available at all banks. Speak to your bank about the different options available to you. In the meantime, let us have a look at a few of them.

Savings accounts are simple and easy to manage. You can put money into your account or withdraw it (take it out) whenever you like. If you use an ATM (automatic teller machine), the bank doesn't even have to be open. Banks are all slightly different, but in all cases, you will need a small amount to open the account and you must keep a minimum balance amount in your bank account to keep it active.

32-day deposit or call account: You need a larger amount to open this account. You don't have to add additional savings into this account, but you can if you are able to. If you want to withdraw this money, you must tell the bank 32 days beforehand (32 days' notice). This makes you plan ahead and think before you use your savings. You earn a higher rate of interest on a 32-day deposit account, because you cannot take your money out until after 32 days.

Tax-free savings account (TFSA): For a taxpayer, the advantage of a TFSA is that you will not pay tax on any interest, dividends, capital gains and withdrawals, unlike a regular savings account. Most product providers require a minimum monthly contribution of R500, with the option of making monthly or annual contributions, or even to make contributions as and when the opportunity arises. You are allowed to save up to R36 000 per year in a tax-free savings account, or R3 000 per month, but no more than R500 000 over your lifetime (2021). TFSA's can be opened on behalf of non-taxpayers like minors, but tax is only saved if the account holder is liable for tax. As children are rarely liable for tax the main benefit of a TFSA will be lost.

Understanding how interest works enables you to make the most of your savings. When it comes to savings, you want to ensure that your bank product offers you a good interest rate. In other words, you want to get more money out that you have put into the bank, less any applicable fees and administration charges.

Example:
If you have R5 000 in your account, wouldn't it be better to get 5% interest on that, rather than 2%? If the interest rate is fixed, it means that you will have R5 250 in your bank account after a year, instead of just R5 100.

Shop around – the interest rate can vary from anything between 2% to 8%, depending on factors such as how long you commit to keeping the money in your account. You do not have to make regular deposits to keep your savings account open. Just make sure you have some money in your account (some banks require a minimum amount of R50).

With a **fixed-term account**, the interest rate is usually fixed for the lifetime of the account (which could be anything from three to 24 months, for example). You will be charged a penalty if you withdraw your funds early unless you give the bank the required notice of your intention to withdraw.

Some banks set a limit on the amount you deposit to set up the account (like R10 000) or the overall amount you can deposit (like R500 000).

How banks can help me:
- Banks are safe and reliable institutions because they are strictly regulated.
- You can do most of your banking online – you do not need to go into a branch very often.
- You can get hold of your money very easily.
- Tax-free savings accounts help South Africans to save more.

The downside of banking:
- Banks can seem impersonal.
- Banks usually charge fees to hold your money. These vary from bank to bank.
- You earn little or no interest on money kept in a current account.
- Unless you have a tax-free bank product, you may have to pay tax on any interest you earn above a certain limit in any year (depending on your tax status).

Unhappy with bank products or services?
If you are unhappy about the services received from your bank, you can lodge a complaint directly with your bank. If you are still unsatisfied with their response, you can refer your complaint to the Ombudsman for Banking Services (OBS). Visit www.obssa.co.za, email info@obssa.co.za or call 0860 800 900. You can also WhatsApp the OBS on 066 473 0157.

Informal savings

Informal or home-based savings are common in Africa and places where not everyone has a bank account. Even if you have an account, you may still have some type of informal savings.

Savings groups or stokvels bring community members together to save money for specific purposes. They can take different forms, like a friendly society, an investment club, or a burial society.

Simphiwe's granny belongs to a stokvel. She pays R100 each month, along with the seven other members. This means that, after seven months, she will receive R700 – the sum of the members' savings! She can use these to buy groceries or even buy a present for Lebo for her birthday.

Did you know?
According to the National Stokvel Association of South Africa (NASASA) there are about 810 000 active stokvels in South Africa (2021). They have more than 11 million members who collectively gather around R50 billion in savings every year.

Before you join a stokvel, make sure it is registered with the National Stokvel Association of South Africa (NASASA). Ask for proof of a registration number and contact NASASA on 087 898 0987 or email info@nasasa.co.za if you are unsure.

How stokvels can help me:

- Stokvels are a good way to learn how to save. You are more disciplined if you are saving with others and do not want to disappoint them.
- Stokvels can support members in non-financial ways, too.

The downside of stokvels:

- Members do not earn interest on the money saved.
- Members can save only for a shorter period (less than one year)
- Members may need to agree on what they are saving for, and why (for instance festive season expenses).

2.4 Friends and family

While friends and family may prove to be a useful 'last resort' to turn to for financial help, this should not be part of your financial planning as it may not be that certain. Also, it can also cause all sorts of relationship problems when things go wrong. With good planning you should be able to avoid this.

How much should I save each month?
This depends on your goals and your financial commitments.

A good savings technique, called 'pay yourself first,' involves putting about 10% of your salary straight into your savings before you pay for anything else. If you cannot manage 10%, even 2% will help you to make a start. Seeing your money grow will motivate you to keep on saving.

As we have pointed out, to prepare for an emergency, you should have at least three months of living expenses saved in a savings vehicle that is easy to access.

Quick tip!

To work out how much you need to save to achieve a specific goal – like buying a stove, take the total amount you need to save and divide it by the number of months you need to reach your goal.

If the stove you want to save up for is R5 500 and you want to buy it in four months' time, you will need to save R1 375 each month. Remember that you can top up your savings at any time.

Use a savings calculator available at https://www.fscamymoney.co.za/Pages/Calculators/Savings-and-Retirement.aspx to work out how much you need to save to achieve your goal.

Lay-by

Simphiwe's granny has been using lay-by for years to buy clothing. She used her ID to register and she put down a 10% deposit on a handbag she wanted, which cost R500. After paying the R50, she kept her lay-by till slip safe and set out to pay for the handbag over three months. When she had paid the full amount, she produced her till slip and ID and received the handbag. If she had made a late payment, she would have had to pay a penalty!

Lay-by is helpful if you want to buy a pricey store item but do not have the full amount available in cash and do not have a store or credit card. The Consumer Protection Act allows you to cancel a lay-by any time you want to, and get a refund on all your payments, with less than 1% of the retail price as a penalty. Shops must then refund you in cash and not offer you a credit note. You can also get a refund if the goods you have bought are defective.

It usually makes more sense, financially speaking, to rather save up for something by keeping your money in an interest-bearing account, then paying the full amount when you have enough money for the item. This may also allow you to request a cash discount on the purchase price.

If you have a consumer complaint and you are unsure of who to report it to, you can call the Consumer Goods and Services Ombud on 0860 000 272 or visit www.cgso.org.za

Instalment agreement

An instalment agreement (which used to be referred to as a hire purchase or instalment finance agreement) is another way to purchase an item.

Let us say Simphiwe wants to buy a car. She can enter into a credit contract with the car dealership and drives the car home on the same day that she signs the paperwork. However, she must still pay for the car every month, and that payment will include interest. If she cannot pay, the car will be taken away from her and sold to pay off the remaining debt.

Quick tip!

If you want to buy a car and you have a deposit, you will pay less on your monthly instalment than if you had taken out car finance for the entire amount.

Some car dealers will run specials, marketing cars at attractive prices. Make sure that you read the fine print and know what you are getting yourself into financially. With these deals, you often have to pay instalments for more than 60 months and there is a 'balloon' payment that must be settled at the end of the loan term.

What does it mean?

Balloon payment: A final lump sum to be paid at the end of a loan period, which is the principal sum outstanding (the interest having been paid off). Paying lower interest does not help you if you have to pay a big lump sum at the end of the payment term!

If you cannot afford to pay back the balloon payment as a lump-sum, you may be forced to sell the car at a loss, or enter into a longer repayment period, paying even more interest. Financial planner Warren Ingram says nobody should spend more than 20% of their monthly salary repaying car debt. In addition, you need to be able to afford to maintain your car, pay for petrol, pay yearly license renewal fees and pay for motor vehicle insurance. Include these items in your budget so you do not forget about them!

Simple and compound interest – what is the difference?

Simple interest allows you to earn interest over time on money you have saved or invested.

But there is an even more powerful form of interest, called compound interest, which is also known as 'the eighth wonder of the world' because it is so life changing.

Compound interest is where you earn interest on the interest.

Example:
If you are 25 and you start investing R200 a month (at 6% interest per annum effective), by the time you turn 65 your money will be worth R383 395. But if you start at 35, saving the same amount of money at the same rate of interest, you will only have R195 851 by the age of 65.

Compound interest works to your advantage when you save over a longer period of time, for example, for retirement. But you can still use the power of compound interest to boost your short-term or medium-term savings.

When working with compound interest, you need to be aware of the difference between nominal and effective interest rates. For example, interest may be quoted at 0.5% per month, which is 6% per year in nominal terms. However, if the interest is compounded at the end of each month, by the end of 12 months the total interest will be effectively 6.1678% for the year. (The effective rate of interest per year is defined as the total interest earned in a year per unit of capital invested, assuming that interest received before the end of the year is immediately reinvested on the same terms as before.)

No interest, please – Shari'ah-compliant saving

You may have heard that Muslims have a different approach to saving and investing than people of other faiths. This is because they follow Islamic law. This law is called Shari'ah and is based on the Quran, the holy book of Muslims.

Muslims believe that lending money on interest is unethical. However, an Islamic bank can agree to finance your car or house at a price above the market value, meaning that the repayments would not be calculated using interest, but would be higher anyway, and an Islamic investment could pay out dividends (a share of company profits).

Many banks offer Shari'ah-compliant banking products. These are not restricted to Muslims only, however – anyone can use them if they share the same ethical outlook.

How inflation affects your money

Inflation is an economic term that describes what happens when prices increase and the value of your money decreases over time. This is why you are paying around R2 or R3 more for a loaf of bread than you did a couple of years ago.

Because inflation affects the value of your money, you can buy less and save less. If the rate of inflation is higher than the interest you earn on your savings or investments your cash will shrink. This means that you should always look to invest your money somewhere where the expected return is higher than the expected rate of inflation, otherwise your investment would be generating a negative return in real terms. There is not much we can do about inflation, which is a macroeconomic factor (how economies perform).

The primary way to beat inflation is to **invest your savings somewhere for a better return** than you can get in money market accounts or savings accounts.

2.5 Beware of get-rich-quick schemes and other scams

Thousands of South Africans lose their money to scammers every year. People of any age, background, level of education or place of residence can fall victim to a scammer.

Some of these scams are very sophisticated and it is difficult to tell that they are scams. They can look legitimate, especially if they are advertised in newspapers or on websites, or they have good marketers. Many appear to be worthwhile investment opportunities that promise big returns almost instantly.

Unfortunately, many of us fall for these scams due to hope, greed or even fear – especially if we think others are making a lot of money. We trust our family members and friends, even when they are also at risk of being scammed.

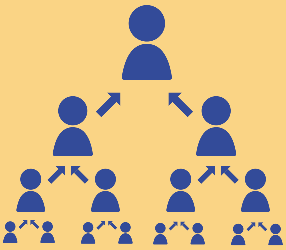
Remember the golden rule:

If something seems to be too good to be true, that's because it is!

2.6 Tips to avoid becoming the victim of a scam

Take note of these red flags:

- Any scheme that promises instant wealth.
- Anyone who brings you an 'opportunity of a lifetime.'
- Any scheme that rewards you for bringing more investors into it. This is a pyramid scheme, which is illegal.
- Someone who asks for your bank account details to deposit winnings from a competition you did not enter.
- People who use emotion or scare tactics to get you to part with your personal details.
- Someone asking you for money to release funds from a donor or similar institution.



What does it mean?

Pyramid scheme: A scam that brings in money for early investors with money taken from people who invest in the scheme later on. The scheme will collapse when there are no new investors brought in and the money dries up.

Scammers are not harmless. They are criminals. Report scams to your nearest police station and email the scam message to scams@fic.gov.za

If you are the victim of a pyramid scheme, contact the National Consumer Commission (NCC) on 012 428 7000.

Only banks can take deposits from the public. Illegal deposit-taking schemes should be reported to the South African Reserve Bank by emailing sarbfnsdept@resbank.co.za

Investment scams can also be reported to the FSCA, email enquiries@fsca.co.za

Social grant scams

All social grants in South Africa are run by the South African Social Security Agency (SASSA).

People who receive social grants are often targeted by scammers. Some common scams include:

- People phoning you to verify your information.
- People telling you they need to test your card and want your PIN.
- People asking you to sign a letter, so they can apply for your grant or use your grant to apply for a loan.

Remember:

Never give your personal information, pin number or SASSA card to anyone! To contact the SASSA hotline, call 0800 601 011.

For more information on scams, visit: www.fscamymoney.co.za

2.7 How does my money grow?

There is a difference between saving and investing, but both should play a significant role in your life. Here are some of the differences:

Saving	Investing
Savings are for specific goals like emergencies, holidays or education.	Investments focus on wealth creation.
You can get hold of your money fairly easily – either instantly or within a stated period of time that could vary from, for example, 48 hours to as much as 32 or 60 days.	Your money is typically invested for the long term. Different financial products have different rules regarding whether you can access the funds at any time or not. For example, you can buy and sell your shares or investment in a collective investment scheme at any time without penalty, but retirement products may charge a penalty for early access (although retirement products give valuable tax advantages).
If your money is in a savings account, there is minimal risk that you will lose all the money you have invested. Saving with a bank or with the South African Post Office (SAPO) means your money also earns you interest.	Investing always carries the risk of losing some or all the money you invest. This risk varies according to the type of investment you choose. An authorised financial advisor will help you to identify investment products that are aligned with the risk you are prepared to take (your risk appetite) and to minimise the possibility of losses. Remember that, in the long run, wise investing will probably give you better returns than savings.
You can earn interest in your savings account, but it is usually at a low rate.	Investments have the potential for higher returns than a regular savings account, although the value of your investments may fluctuate in value over time. Selling shares or your participatory interests in a collective investment scheme at a higher price than what you bought them for will make you a profit. Investment accounts return higher interest than savings accounts, especially over a 5 to 10-year period.

2.8 Types of investment

It has often been said that the best way to get wealthy is to have money that works for you while you sleep. This is a good definition of investing! You invest to make more money than you originally invested. Over time, your money will grow, even if there are small losses along the way.

Simphiwe's flatmate, Khumo, started investing when she was 25. She went to see an authorised financial advisor as she felt that she did not know enough to start investing on her own. Her advisor helped her to set her long-term investment goals. She shared the following golden rules of investing with Khumo:

- Start investing when you are young.
- Invest regularly.
- Invest for the long term.
- Do not 'place all your eggs in one basket' – invest in a mix of assets.
- Know what fees you are paying, to who and why.

Investing is a commitment. Be cautious about investing if:

- Your debt is more than 35% of your household income.
- You do not have some short-term savings for emergencies.

There are a variety of financial products referred to as vehicles you can invest in. These are made up of high-risk, medium-risk and low-risk investment products.

When you work with a financial advisor, they will be able to work out what your risk profile is, and how long you plan to invest for. This will link to the goal of why you are investing.

Let us have a brief look at some **asset classes** – a group of investments that have similar characteristics. These include but are not limited to shares (equities), fixed income (bonds) and real estate (property).

Let's have a brief look at some investment options:

- **Shares**, also known as equities, are issued by a company to give you part ownership of a company/companies listed on a stock exchange, or even private companies. Over time, the combined growth in the share price and the dividends paid on the shares can beat inflation, even if share prices go up and down from day to day.

- **Fixed income products like bonds** are relatively low-risk and are financial vehicles, usually sold by governments or municipalities so they can raise the money they need to repair roads or build hospitals. Members of the public buy these bonds and receive a fixed or inflation-linked interest for the term of the investment-rate amount. Parastatals like Telkom or Transnet can offer bonds to raise money for certain projects, while universities and banks sometimes issue bonds as well. Companies like Anglo American or Pick 'n Pay can offer corporate bonds if they want to expand their business, take over another business, or fund their operations in the future. While these bonds may not be suitable or available for purchase directly by you and me as consumers, the RSA Retail Savings Bonds offered by the South African Government are safe, inexpensive and offer competitive returns to save for your future. Pensioners are able to access the interest repayments monthly.

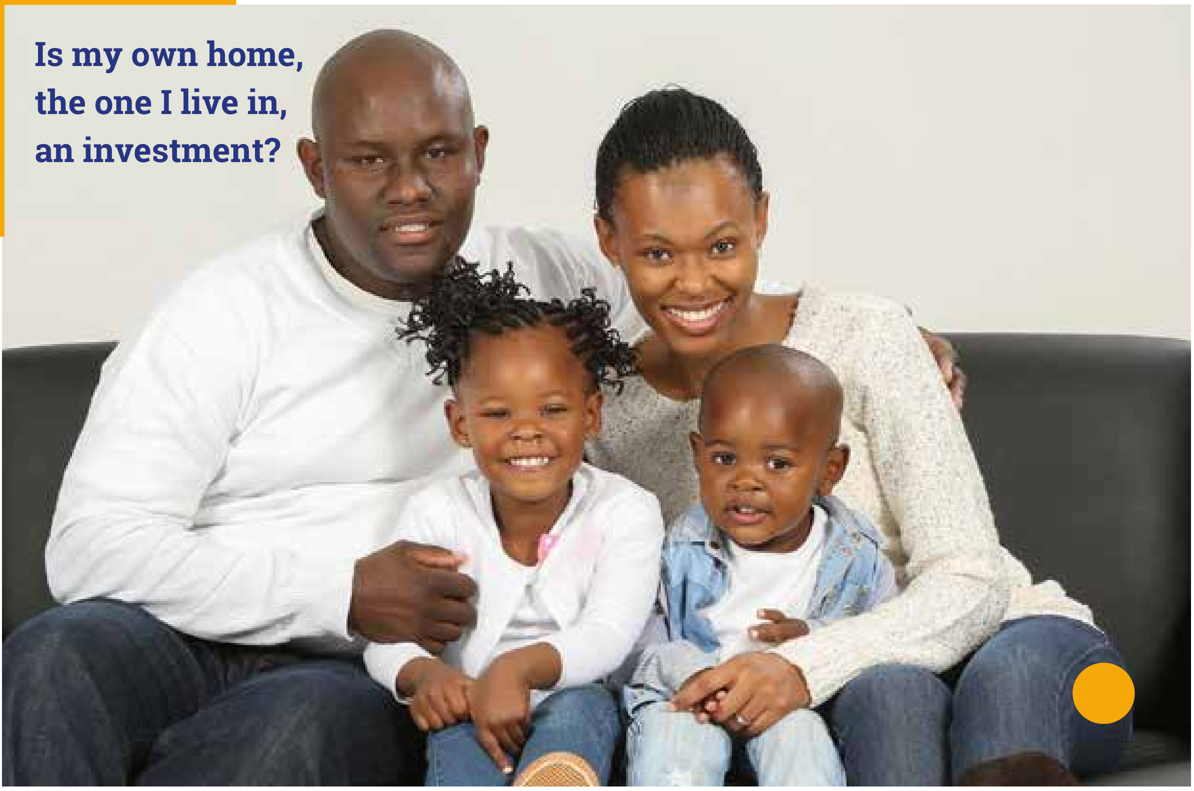
- **Money market, real estate and exchange-traded funds (ETFs)** are low-fee 'baskets' of different investments, like shares, bonds, property, or property commodities like gold. You don't own these assets, but your ETF will track their performance in the market and pay out a dividend (a part of the profit) thereof. Don't confuse ETFs with Exchange-traded Notes (ETNs), which are unsecured debt obligations that carry more risk.

- **Endowments** are typically five-year investments that are really tax-free savings. Shop around, because some companies charge a high annual fee for them, as well as a fee upfront. They are often used to save for a child's education.

- **Property** can refer to bricks and mortar for investment purposes, like a house or flat you can rent out to tenants, or to listed property – property companies that list their shares on the stock exchange. Property tends to be a safe and reliable option over the longer term, but it does not always protect the buyer against inflation. A house or flat can also be expensive – can you afford to maintain an investment home, insure the property, pay fees to a rental agent and find suitable tenants, too? As an owner, you will also be liable for the rates and taxes.

RSA RETAIL SAVINGS BONDS

Visit www.rsaretailbonds.gov.za, email queries@rsaretailbonds.gov.za or call 012 315 5888 for more information.



Is my own home, the one I live in, an investment?

For most South Africans buying a house is the biggest purchase they will ever make. But is it an investment?

When you have placed money in an investment product (like a property) to make a profit, you have made an investment.

Do you make money out of the home you live in? You could by renting out rooms or such, but for most people the house they live in is not an investment in the financial sense. What they may be investing in is a roof over their head, peace of mind, a sense of security, having a place to call their own. Even if you sell your home at a profit after a few years, you will have to replace it with another home to live in.

Buy or renting?

In the long term, renting a house can work out more expensive than buying a house. The monthly payments to property owners will never end and will increase every year, whilst a home loan will be paid off eventually and the homeowner will have a valuable asset to their name. This is why renting is only a viable short-term option and buying is a long-term investment option.

In the end it depends on your needs and dreams. The cost is an important aspect, but your decision will also depend on whether you aim for the security of homeownership or the freedom of renting.

Did you know?

The most active property investors in South Africa today are black women under 30. Bond approvals for women have increased in the past decade, from 14% in 2010 to 41% in 2020. Of these applications, 60% were from single women, according to credit bureau TPN.

Buying a home	
Advantages	**Disadvantages**
• Long-term benefits of security, equity and potential growth in personal wealth. • A home increases in value over time and if you decide to sell, you can earn a profit off the sale. • Gives you creative control to make décor changes, landscaping and renovations to suit your needs and your style. • A homeowner who ensures that repayments are made on time can improve their credit profile. • There is the possibility of refinancing your bond amount if you need money to pay for major purchases. This usually means that you will pay your bond for a longer period. • Paying off a higher monthly instalment than required will save you thousands in interest and shorten your bond period.	• Comes with financial responsibilities, including bond repayments and regular house maintenance as well as additional costs like rates, taxes, insurance, and maintenance. • Economic factors like a recession or high interest rates, or because a location has become less desirable may not make it possible to make a profit when you sell. • Less mobility than a tenant who rents on a short-term basis. • Have to take out Homeowners Insurance or building insurance to cover the structure of your home. • May need to take credit life cover or a life policy to cover the bond in the event of your death, as the bond will still need to be settled.

Renting a home	
Advantages	**Disadvantages**
• Allows more flexibility than owning a home as no long-term commitment is required. • The possibility of living in an area in which you could not afford to buy. • Insurance only has to cover the contents of the home.	• You are bound by the rules of the lease agreement. • You cannot make changes to a rented property without the consent of the homeowner. • You will have to deal with a rental agent who will be the liaison between you and the homeowner. • Renting offers no wealth creation or return on investment. • You are paying towards the homeowner's home loan. • No control over annual rental fluctuations. • No guarantee that your lease will be renewed when it expires.

Tips on buying a house

Here are a few things to think about when buying a home:

1. How much can I afford to pay every month on a home loan/bond? A homeloan calculator can assist – find one on www.fscamymoney.co.za
2. Are you going to apply for a bond?
3. Do you have a deposit saved up?
4. Will you take a bond for 10, 20 or 30 years?
5. Have you found the right property? Use the services of an estate agent or search for a property online.
6. Is the house in a good neighbourhood, close to schools and other amenities as per your needs.
7. Am I buying off-plan, in a new development or an existing property?
8. Shop around for the best interest rate for your home loan, don't always accept the first offer.
9. Costs to consider when buying a home are; transfer and bond registration costs, water and lights, levies (if in a security complex), home maintenance, home owners/building insurance, rates & taxes and/or gardening services.
10. Will I pay the transfer costs separately or will this be added onto my bond amount?
11. Security estate or free-standing house?
12. What type of insurance do I need?

- **Collective investment schemes** are funds that invest in asset classes like shares, property bonds or cash. They are managed by a professional fund manager, at a fee, or more passively managed (when tracking an underlying index), which would mean lower management fees.

- A **unit trust** holder, owns units in a trust which is a pool of funds. An **asset** is a good example. The fund manager will pool your money with the money of other investors to purchase a particular product. You are paid out a share of the profits, which varies depending on how the assets in the fund perform. Always check total management fees with your financial advisor – you should not be paying more than 2% a year.

Digital or cryptocurrency – The new buzz word!

Khumo's brother, Moseki, has lost some money in a cryptocurrency scam. Khumo is very worried because he was retrenched recently. He has a wife and a three-month-old daughter.

Although it is not illegal to invest in cryptocurrency, it is not regulated in South Africa (2021). This means that there is likely no way Moseki can recover his money.

The FSCA has issued warnings about investing in cryptocurrency visit www.fsca.co.za to keep up to date with the latest developments.

What is cryptocurrency?
Cryptocurrency (or crypto assets) is digital money that has no physical form. Its value is not backed by any central bank or government but depends on how buyers and sellers feel in the moment.

This makes it risky to invest in cryptocurrency, since it might be worth a lot today and very little tomorrow. You could easily lose all your savings.

If you decide to invest into cryptocurrency, think money-wise and keep your investment small. If it grows, you can reinvest that small amount and see it grow more. It would be wise to invest most of your money into legitimate investment options until more is known about the success of cryptocurrency as an investment tool.

Quick Tip!
A lot of cryptocurrency investment schemes promise instant wealth.
But you should do your homework before you invest.

2.9 Investing tips

- Invest in regulated investment products so you can get help if there is some difficulty with them.
- Make sure your financial services provider is registered with the FSCA.
- It is best to work with an authorised financial advisor than, investing on your own.
- Never be afraid to ask questions – there is a lot to learn, and knowledge is power.
- Do not invest unless you have enough money to do so. Never borrow money to invest.
- Investments can be risky – do your homework and make sure you know what the risks are before parting with your money.
- Know your rights and responsibilities.
- Know who to contact if you have an enquiry or complaint (see the Useful Contacts section at the end of this resource.)

Red flags to look out for:

- Promises of very high returns – if someone offers you a deal that sounds too good to be true, it generally is.
- Fake cryptocurrencies – some scammers set up realistic sites offering a new cryptocurrency.
- Ponzi schemes – these are fraudulent schemes where investors are paid out with the money of new investors, like pyramid schemes. But unlike pyramid schemes, Ponzi scheme victims genuinely believe their money has been put into an investment (which is not the case).

Meet Janete Nel,

Senior Policy Advisor, Consumer Financial Education of the Association for Savings and Investment in South Africa (ASISA)

Q: Tell us a little bit about what ASISA does?

A: ASISA is the trade industry association for the savings and investment industry. We represent the collective interests of collective investment scheme management companies, asset managers, linked investment service providers (known as LISPs), multi-managers and life insurance companies. We do not have direct dealings with consumers (which are dealt with by our member companies) – we have an overall involvement in the industry, looking at things like regulation, legislation, and transformation within the industry, as well as fostering the future through initiatives such as consumer financial education, enterprise and supplier development, and skills development.

Q: What principles should people follow when it comes to saving and investing?

It is vitally important for everyone to save. When you think about saving, you may think about vast amounts of money, and that you therefore, cannot afford to save – but saving begins by starting small and being persistent.

Who do you think will end up with money – someone with a flashy lifestyle and expensive cars, or someone who has been saving diligently for years and does not live beyond their means?

Saving starts by prioritising expenses – look at what income you have and consider your needs and wants very carefully. Are you budgeting? And if so, do you have a line item for savings? Savings must be a priority, no matter how little you save. Understand the differences between short-term, medium-term and long-term savings goals, and also the importance of having money saved for an emergency. Those emergency savings provide a buffer in a crisis when you need extra money urgently. Save your money in a formal savings product and top it up when possible. You will have the power of compound interest on your side.

Informal savings are also savings but be very careful about who you save with. Who is looking after that money, and who is overseeing how your savings club is run? Even informal savers can put money into formal savings vehicles, which means that if something goes wrong you have a proper complaints channel and may be able to recover any money lost.

Q: What is employer-assisted saving? How can I find out more about it?

A: If you are employed, ask the Human Resources (HR) department at your company about employer-assisted savings. Employers are often in a good position to help their employees to save money – this could take the form of retirement savings, but also includes other benefits such as life, disability or funeral policies. A lot of companies allow their employees to make extra voluntary contributions to their savings.

Most importantly, do not just accept what the company offers – ask questions, find out what the benefits are, and know what is and is not covered. Find out how investments are performing by checking financial statements. For retirement savings, it is very important to regularly check your retirement benefits statements (once a year or when you have had life changes like an addition to the family. Understand what the information is about and make sure that your nominated beneficiaries are up to date and correct.

Q: What can a financial advisor do for me?

A: First of all, make sure you go to an authorised financial advisor for advice, rather than to a friend who seems to be doing well in life. Even if you feel you cannot afford certain products and services at this time, have an advisor perform a **needs analysis for you, to determine what you can afford right now and what savings and investment options are appropriate for you.**

An advisor can meet with the whole family and ask in-depth questions about things you may not have thought of – for example, have you made a plan for paying for your children's education? Are you saving adequately for your retirement, given that – you cannot rely on the government to supply what you need for retirement? Do you have a will, and have you covered everything that needs to be covered in that will? What will happen to your children if you die? What will happen to fixed assets such as your house? An advisor helps you to identify and fill these gaps in your financial plans.

Important

Not everybody can afford to consult a financial advisor. Another option is to contact or visit a financial institution and ask for factual information about the different options at your disposal. Be sure to compare the information from different financial institutions paying attention to product features and costs, and the small print terms and conditions. Read more in chapter 7.

Chapter 3

USING CREDIT TO MY ADVANTAGE

Chapter 3:
Using credit to my advantage

3.1 Introduction

Credit can be extremely useful as it can help you to buy what you need, even if you do not have the cash upfront for it. Simphiwe could use credit to pay for Lebo's education or start a small business on the side. Provided you use credit responsibly, it can provide you with a better life.

Simphiwe can build a good credit score, which will help her to access more credit in future. If she pays her monthly instalments in full and on time - she will pay less interest and will not incur unmanageable debt.

Credit can be your friend – but only if you do not use it recklessly or without having a goal in mind!

3.2 Bad debt, good debt, neutral debt

Financial planners often differentiate between three types of debt – 'bad' debt, 'good' debt, and 'neutral' debt.

Bad debt
Most debt is 'bad' debt because it is used to buy items that lose value quickly and it does not generate income or increase in value. Simphiwe is paying off furniture, clothing and a revolving loan, which she uses to buy groceries – these things decrease in value or are consumed long before they are paid off. She could have saved for the furniture and clothing, budgeted for the groceries, and paid for them with cash.

Be careful of the high interest charged by clothing or furniture stores. It is important to use store cards responsibly and budget for each expense. Simphiwe has two store cards and she makes use of the six months' interest-free shopping option because she is a single mom. She was able to pay off what she owed within the interest-free period, which was great – but she is paying a monthly admin fee for using these cards, so they cost her money even if they are interest-free.

If you need store cards to buy clothing, having multiple cards can be a problem, and the temptation to spend to your limit increases. You could consider only one card and you could pay the amount owing on it – on time, every month! But you need to use that card responsibly. If you spend more on your card, then your instalment increases, you need to budget for each expense.

While many store cards allow you to buy goods over a number of payments without having to pay interest, another option is a type of card where you pay up-front and actually get a discount on your purchase, thereby saving money.

Did you know?
A Certified Financial Planner® is a financial advisor who has an undergraduate or postgraduate qualification in financial planning from an education provider approved by the Financial Planning Institute of Southern Africa (FPI). For a list of certified financial planners visit www.fpi.co.za.

Check your monthly store account statement for extra charges!

Always check your monthly store account statement to see how much interest, fees or administration charges you are paying each month.

It is important to read and understand your store account contract. Ask for a dummy statement which will outline your monthly repayment charges.

Check that you are paying for services and costs that you agreed to. Some stores add financial products and services disguised as 'value added services' like funeral cover or credit life insurance to your account. Many consumers do not read the fine print when opening an account and end up paying for additional items. These can come at an additional cost, will increase your monthly repayments and may carry additional interest charges which means that it will take much longer to repay your account.

Good debt
'Good' debt is when you buy an asset that grows in value over time, like a house. 'Good debt' can help you increase your income. A student loan or a business loan could also be considered good debt, because you will have something to show for it in future. Education helps you to get a better job and starting a business could make you more money.

Neutral debt
'Neutral' debt is buying a car to help you to get to work or university. But this type of debt can quickly become 'bad' debt if you:

- Buy an expensive car that you cannot really afford.
- Buy a vehicle but do not have enough money to maintain or insure it.

3.3 What is affordability?

A reputable lender will assess if you can afford to take out a loan. This is known as your 'affordability.'

The National Credit Act, 34 of 2005 ("the NCA") says that lenders can only lend you what you can afford to pay back while still being able to pay your other living expenses. The NCA requires that:

- All lenders (credit providers) must be registered with the National Credit Regulator ("NCR").
- All lenders to check the records of the credit bureau to ascertain the level of debt and payment history of a consumer prior to granting credit.
- Lenders to cap their interest rates.
- All lenders to carry out an affordability assessment prior to the granting of credit. During this process, you will be required to provide your payslips and bank statements.

Unfortunately, there may be *mashonisas,* also known as 'loan sharks,' who make money by offering consumers loans that they cannot afford, with exceptionally high interest rates and other charges. They can charge anything from 50% to 112% on top of the loan amount, according to research conducted by the Black Sash and London School of Economics.

These loan sharks are not regulated and operate outside of the National Credit Act.

Some people spend years paying off quite small loans because they get trapped in a cycle of debt.

If you really need money, you should rather use the services of a registered credit provider, like a bank or micro-lender. Alternatively speak to your creditors and make alternative payment arrangements like, reducing your monthly repayment or paying what you can afford until your financial situation improved.

Disreputable lenders often break the law:

- Some lenders use child grants to cover some people's loans - This is illegal! It should be reported to the South African Police Services (SAPS).
- Some loan sharks have been known to keep people's ID documents and bank cards as security for an unpaid loan, and even use threats and violence to intimidate borrowers. The NCR protects consumers' rights. If a lender has taken your documents, contact the NCR on 011 554 2700, email complaints@ncr.org.za, or fill in Form 29 available online by visiting www.ncr.org.za

3.4. What is a credit score?

We cannot avoid debt completely. Sometimes we need to take on debt to reach our goals. There are few people who can pay cash for a property, for example. Most people approach a bank for a home loan.

Banks and other financial institutions want to know that you can manage your money before they approve an overdraft on your bank account or a home loan.

When you apply for a loan, credit providers in South Africa conduct their own affordability assessments but viewing the records of credit bureaus. These records provide creditors with important information on your debt, repayment behaviour or see if you have been negatively listed. These factors influence your ability to get credit and also influence the interest rate that will be granted to you.

Credit bureaus all score differently, but TransUnion scores consumers on a scale from 0 to 999. Scales and categories can differ from one bureau to another.

Excellent:	**767 – 999**
Good:	**681 – 766**
Favourable:	**614 – 680**
Average:	**583 – 613**
Below average:	**527 – 582**
Unfavourable:	**487 – 526**
Poor:	**0 – 486**

A good credit score is like gold. It opens many doors for you, allowing you to apply for good debt, often at a preferential interest rate, in order to improve your financial standing in the future.

Did you know?
According to the Credit Ombud, consumers do not have to apply for credit to check their credit report. In addition, a creditor must tell you at least 20 business days in advance before they list you with a credit bureau. A listing means that you have not paid what you owe, and a default judgment has been issued against you.

3.5 How a good credit report helps me

South Africans are entitled to one free credit report, per credit bureau per year. Find a credit bureau on www.cba.co.za. All you need to do is create a username, password, provide your South African identity number and answer a few security questions. The five primary credit bureaus in South Africa are Consumer Profile Bureau, Experian, Vericred, TransUnion and XDS.

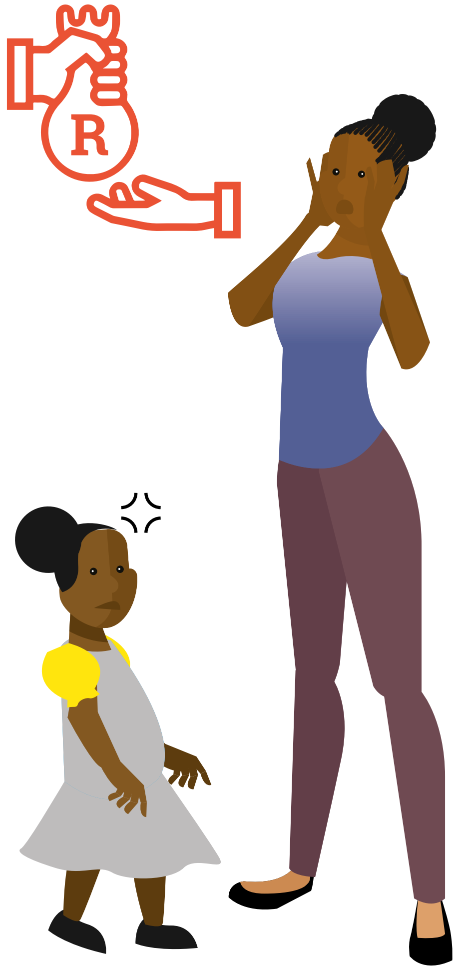
A good credit report may help you to save money in the long run as you will get better rates on insurance, for example, or qualify for lower credit-card interest.

Credit cards

Credit cards are convenient and useful if you want to build a good credit report. You only have to pay for what you buy up to 30 or so days after making a purchase. But ask your bank what interest rate it is offering – if you borrow on your card and you are charged 15% per year interest, you will be paying a lot more back to your bank than if the interest rate is 9%!

Some banks offer their best customers a rate lower than prime, which is currently 7% per year. If you have a good credit report, you can negotiate a good rate. Banks can charge anything from 9% to 20.5% annual interest on your credit-card purchases, so it is wise to shop around.

Using a credit card to pay for day-to-day expenses, like groceries, can be risky. You do not want to have to pay for groceries you already used, six months later!



Quick Tip!

Be careful of 'payday' loans. These are short-term loans that give you easy access to money if you need a little bit extra to make it through the month. The lender will deposit the funds in your account, but they will be able to deduct the amount plus interest from your bank account, even if you are unable to repay the loan.

Example:

Let us say Simphiwe decides to take out a payday loan because she wants to buy some medication for Lebo, who has bronchitis. How much will it cost her? Simphiwe takes out a loan of R1 000 for the month. She may also have to pay:

- An initiation fee of 15% on the R1 000 – R150
- 5% interest for the month on R1150 (on the loan plus initiation fee) – R57.50
- A service fee of R60 plus 15% VAT – R69

The amount she will have to pay back at the end of the month will be R1 276.50. Simphiwe may think that this doesn't sound too bad – but she is effectively paying R276.50 for the benefit of using the R1 000 for a month, which is equivalent to interest at 27,6% per month!

3.6 Tips on how to maintain and increase my credit score

- Adopt a more modest lifestyle and budget carefully.
- If you must borrow, only borrow what is absolutely necessary and avoid using credit to buy everyday items like groceries.
- Only deal with registered credit providers and avoid unregistered credit providers. Do not be fooled into paying an 'upfront fee' for a loan, which is illegal. An initiation fee is usually charged by registered credit providers to pay for the administrative work to open your credit account and will be calculated as part of the total amount you will have to pay off later. An upfront fee is a payment that some credit providers charge consumers before granting them loans. The NCA prohibits charging upfront fees before a loan is disbursed and prohibits certain types of advertising like "Blacklisted welcome", "No credit checks", "Zero interest". Refer to section 3.10 for more on legitimate and illegitimate lenders.
- Consumers should be weary of this as most fake credit providers who operate online, charge consumers this fee.
- Never sign a blank agreement or contract, and always read the fine print first before signing. Make sure you understand the contents and ask questions if you do not know what something means.
- Be honest about your expenses when applying for a loan to avoid reckless lending. The National Credit Act cannot protect you if you are not truthful.
- Understand the cost of credit, which includes the interest rate, once-off initiation fees, monthly service fees, life insurance and more. Ask for a pre-agreement quotation that is valid for five business days, which must set out the costs you can expect to pay. Do not sign anything unless you are satisfied with the information.
- Just because a creditor offers you credit, doesn't mean you have to take it!

3.7 Avoiding the debt trap

Getting into debt is quick and easy. Getting out, is hard as it can take a long time and it can be expensive. You can end up paying far more for an item than if you had paid cash for it.

Debt can limit your ability to live well, even if you think that it is important to spend money to maintain a certain lifestyle.

A good way to avoid debt is to try and pay cash for everything, rather than just swiping or tapping your card when you shop. Paying with actual cash in your hand gives you a clearer idea of what the transaction is costing you.

3.8 How much debt is too much debt?

Simphiwe can work out what is known as her 'debt-to-income' ratio.

She needs to calculate her loan amounts (clothing, furniture and revolving personal account, which adds up to R1 675), divide the amount by her income (R9 500), and multiply the answer by 100. This gives us a total of 0.17. When we multiply this by 100, we get 17.63%. This means Simphiwe is spending 17 cents of every rand on debt.

According to Mortgage Market, a good debt-to-income ratio is around 36% of your gross income. This means that Simphiwe's debt is within acceptable limits – but she should still try to reduce her debt, because it is difficult to save a lot when one has debts to pay off.

Did you know?

A debt-to-income ratio refers to the percentage of a person's monthly income that goes toward paying debts. In South Africa 30% of your gross income may be used for a home loan according to the National Credit Act, which leaves a limited amount for other debts. According to the South African Reserve Bank (Quarterly Bulletin, no 300, June 2021) South Africans paid on average over 75% of their disposable income towards debt in the first three months of 2021.

Chapter 3

3.9 The problem with short-term debt

Generally speaking, long-term debt is good because you are working towards a goal – a degree, a house, and so on. However, short-term debt tends to be bad – think of short-term loans offered at high interest rates, electrical appliances, clothing, and other goods that do not add to your wealth. Short-term debt is easy to obtain but the higher the interest rate, the more you have to pay back in the long run.

Simphiwe's flatmate, Khumo is a primary school teacher who earns R15 000 a month.

Khumo wants to buy a Smart TV on credit.

We have all seen adverts from furniture stores, which makes it sound affordable to buy on credit. However, when you read the fine print, you end up paying much more in interest and other charges than if you had saved up and bought the items for cash.

The cost of the Smart TV is R15 000. If Khumo buys it on credit with a 23% effective annual interest rate over 24 months, she will only pay R785.60 per month, starting at the end of the first month (assuming that she pays no initial deposit). Sounds reasonable right? Wrong!

Khumo will actually pay a total of R18 854.40 for the TV. That's R3 854.40 more than the cash price of R15 000!

Khumo decides to shop around for the best deal and ask about the different interest charges before making a purchase. She will also check with the furniture store about other options such as lay-by, because she is very careful with her money.

Meet Ms Magauta Mphahlele,

Consumer Goods & Services Ombudsman

Chapter 3

Q: How can I avoid becoming over-indebted?
A: People do not always become over-indebted because they are reckless. Divorce, illness, re-trenchment, or a reduction in commissions or bonuses can plunge even the most responsible consumers into debt. Even having savings and manageable credit is not going to help if you are retrenched and it takes you a year to find another job because of a downturn in the economy. However, consumers do need to budget, consider future interest and price inflation, and not look to borrow as much as they are allowed to in terms of their disposable income. They should save as much as possible and understand that credit products have different costs.

Q: What are the best ways to get out of debt?

Consumers need to understand all the different options available to them so that they choose one that suits their individual and financial circumstances.

These include lifestyle changes, self-help, and debt counselling as a last resort.

- Lifestyle changes include downgrading, cutting out unnecessary expenses and sticking to a strict budget.
- If this does not work, they can approach their creditors and present their income and expenses to show they cannot meet monthly contractual obligations. Almost all creditors have internal policies to assist clients in financial distress. However, these policies are mainly applied to clients in good standing, so they must approach creditors as soon as they are in trouble.
- **Debt consolidation** – taking out one loan at a fixed rate to pay off many others – can work if the consumer has the discipline to not take out further credit. Consumers need to apply for consolidation loans before they fall behind on their payments.
- There is an informal process outlined in section 129 of the National Credit Act whereby a credit provider informs consumers that they are in arrears and gives them a chance to pay their account up to date. If they fail to do so within ten days, the credit provider can issue a summons, thus involving the court or the National Credit Tribunal.

- **Debt counselling** helps over-indebted people or people who think they are about to become over-indebted to repay their outstanding debt through an affordable repayment plan. It works for people who have enough income to pay back reasonable monthly instalments (usually 60% unless a court order's it differently). Because the tribunal or court is involved, the exit rules are very strict even if your financial circumstances improve. Your credit report at the credit bureaus will be flagged to show that you are under debt review. You will also not be able to access more credit. Once your debts are paid up, a clearance certificate can be issued. While debt counselling can be helpful, there are many costs involved. Debt counsellors must explain the details and implications of the process to consumers before signing them up. We see many cases of consumers who went into debt counselling without understanding its full implications or being enrolled without their knowledge after sharing their personal information. Refer to section 3.12 for more on debt counselling.

Q: How can one distinguish between legitimate/illegitimate lenders?

A: All lenders are required to register with the National Credit Regulator (NCR). The list of registered lenders is obtainable on www.ncr.org.za

The NCA prohibits charging upfront fees before a loan is disbursed and prohibits certain types of advertising like "Blacklisted welcome", "No credit checks", "Zero interest". Usually illegitimate lenders are not registered, use unlawful advertising methods like the above, and charge upfront fees/illegal interest rates.

Consumers should always check the NCR website to determine if a lender is registered.

Q: What loan scams should one look out for?

A: Loan scams that:

- Require upfront fees with the promise to arrange loans.
- Promise very low interest rates for very large loans that are not in line with the regulated thresholds.
- Promise loans even if you are "negatively listed" (previously known as "blacklisted").

Am I over-indebted?

Take this simple test to see if you are spending too much on debt.

- Do I pay my bills on time?
- Have I skipped a payment recently?
- Am I borrowing money to pay off my debt?
- Do I skip some payments so that I can pay others?
- Are my creditors sending me messages about late payments?
- Have I requested a higher credit limit from the bank?
- Am I using my credit card to pay for groceries or utilities?
- Have I been turned down for a loan?
- Have any of my debit orders bounced?
- Am I avoiding people I owe money to?
- Has my bank card been rejected at till points?
- Am I having family problems due to my debt?
- Has my account been handed over to a debt collection agency or lawyers?
- Am I spending more than 20% of my income on credit card repayments?

It is easy to get into this situation, but difficult to get out of it.

Did you know?

In March 2021, the South Africa Human Rights Commission released a report that showed that more than 50% of South Africa's credit-active consumers (19 million people) are over-indebted. The Covid-19 pandemic has made the situation worse with so many people having lost their jobs or receiving a reduction in their salaries.

The good news is that there are ways to get out of debt and you, too, can escape the debt trap. It is important not to feel ashamed or embarrassed about your debt. Everyone gets into debt at one time or another – it is how you manage it that counts.

3.11 How to get out of debt

You can draw up a debt-busting plan that will help you take those first few steps to get out of debt. These include:

- Drawing up a budget and sticking to it.
- Getting a free credit report so that you know who you owe and how much you owe them.
- Trying not to get into any more debt. Keep your store cards at home so you are not tempted by sales or special deals.
- Do not avoid or run away from your creditors. Contact them and arrange to pay them – even a small amount until you have more money. Ask them what amount they will accept.
- If you are handed over to a debt collector, see if you can negotiate with them, too. When you get some extra cash, like a year-end bonus or the proceeds of a 'side hustle,' ask them for a settlement figure. This is usually much less than the total amount that you owe. Settle that debt and tackle the next one.
- Work on more ways to earn an income. If you do have a 'side hustle,' like knitting blankets, fixing people's cars, repairing refrigerators or TVs, doing your friends' hair, baking, sewing, or selling beauty products, invest some time in this – just make sure it does not go against your company's employment policy.
- Trade skills. If you are good at baking and your friend is good at sewing, you can trade skills instead of money.
- Never give up. Even if your situation seems hopeless now, things can change. Take one day at a time and tackle one problem at a time.

The reality is that getting out of debt means that you have to cut back on your spending – and the more you cut back, the quicker you will find yourself out of debt!

3.12 What is debt counselling?

Some over-indebted consumers opt for debt counselling. But this does not mean just going for advice – it also means entering into a legal process to restructure your debt. You can and should only enter into debt counselling if you have little prospect of paying off your debt without it.

A registered debt counsellor will protect you from any legal action by your creditors, for a period of 60 days from the date you apply. But this will only apply if you pay the amount you owe each month!

- Your credit report at the credit bureau will be flagged, indicating that you are in debt counselling.
- You will not be able to apply for any credit until your debts are fully paid up and the credit bureau has received a clearance certificate from your debt counsellor.

Debt counselling can be a stress-free way of dealing with the people you owe money to – but you will have to pay for the service. Costs include legal, application and restructuring fees.

It is also up to you to check that payments are being made to and received by your creditors. You will make payments to a payment distribution agent (PDA) who will pay your creditors or pay your debt counsellor their fees.

Payment made to PDA
(Payment Distribution Agent).

PDA pays creditors / debt
counsellor their fees.

You are entitled to transfer to another debt counsellor, and you should also ask your original debt counsellor for a statement and a refund of any fees paid if they are not doing their job.

> If your creditors are not being paid, you can lodge a complaint to the NCR by emailing complaints@ncr.org.za or contacting 0860 627 627/011 554 2600.
>
> If you do opt for debt counselling, you can find a list of registered debt counsellors on the National Credit Regulator's website, www.ncr.org.za

3.13 What if you don't have money to pay off your debt?

If you have done everything in your power but still cannot honour your debt repayment plan or agreement and you are falling short on your payments or not paying at all, your credit providers will hand your case over to their attorneys for debt collection or will sell your debt to a debt collection company. This means that you now owe the outstanding payments to the debt collection company that bought your debt.

The debt collection company or appointed attorneys must negotiate an acceptable arrangement with you on how to pay. After all reasonable attempts have been exhausted to recover the outstanding balance from you, legal action can be taken against you.

Once a default judgment has been obtained against you, a warrant of execution can be granted. This is an application to the court to attach your movable property, i.e., your furniture and other personal possessions that can be removed, but not your house or land. The company you owe money to, can now instruct the sheriff to go to your house and ask you to pay. If you don't, the sheriff will make a list of your moveable possessions until the amount you owe is covered. These assets are now referred to as being "attached" and you cannot deal with your attached assets anymore. Your possessions will then be auctioned in order for the creditor to be paid what is owed to them. Various legal costs may be added through this collection process to the debt that you already owe which may make the amount due by you even larger. Default judgement taken against you will also be included on your credit record/ profile and you will struggle to obtain more credit until this judgment is removed. The removal of a default judgment must happen through a court application process at your own cost once the default debt has been paid.

Contact the Council of for Debt Collectors (CFDC) on www.cfdc.org.za or call 012 804 9808 to find out more about your rights and responsibilities when it comes to debt repayments and legal action. You can also lodge a complaint against a debt collector, debt counsellor or credit provider with the CFDC. See Useful Contacts section for more information.

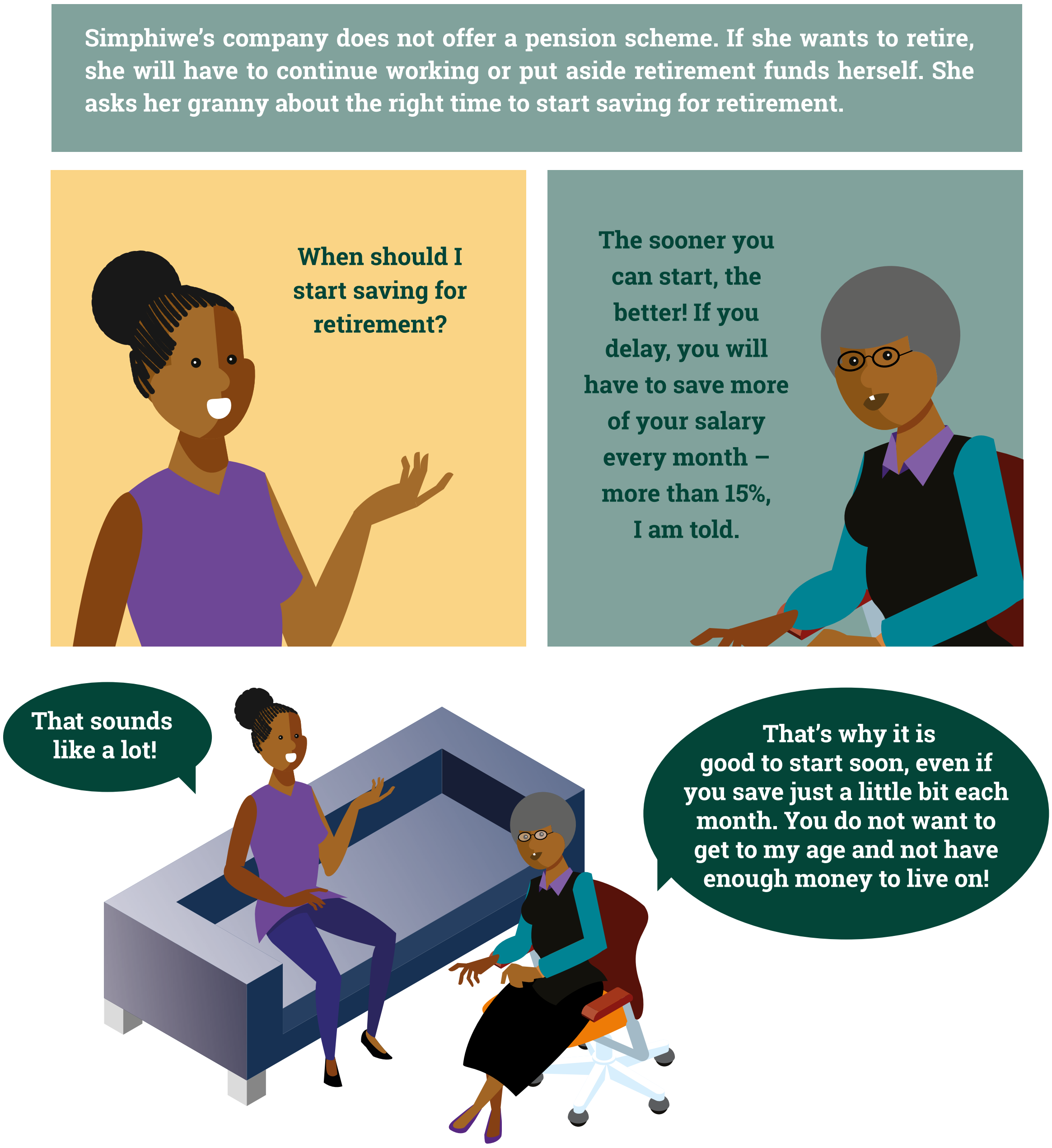
Chapter 4

RETIREMENT PLANNING

Chapter 4: Retirement planning

4.1 Introduction

Simphiwe is visiting her granny for tea. Her granny worked for a mining company, and she left their employment at the age of 60. She receives a company pension of R2 300 a month. Simphiwe says she is too young to think much about retirement – but her granny tells her that retirement can be an expensive time of life. She has arthritis and high blood pressure and needs to take medication every month.



Example:

According to PSG Wealth if you begin saving at the age of 25 and you want a lump sum of R1 million on retirement (around age 65), you will need to save around R180 per month if you achieve growth at 10% per annum. But, if you begin saving at 45, you will need to contribute around R1 400 a month at a return of 10% per annum – and R1 million sounds like a lot but it may not be enough to maintain your current lifestyle in retirement!

And remember, while R1 million may sound like a lot of money to you today, in 40 or so years' time it will probably not be worth much. You have to factor inflation into your calculations.

There are a number of factors that are considered when setting your contribution – health, age, goals – so it is best to speak to an authorised financial advisor.

Have you thought about how you want to live when you retire? Will you be independent, or will you rely on your children? Will you receive a pension, or will you have to keep working?

In South Africa, the average age of retirement is about 60 – but with a shortage of skills in the workplace, many employees are working for longer than that. Your contract of employment might mention a retirement age, or it may not.

Did you know?

In 2021, National Treasury predicted that only 6 out of every 100 retirees will be able to retire comfortably and live like they did before retirement. To make sure that you can retire comfortably, you must invest at least 15% of your income. Refer to the example below.

According to Adv Ronald King, Director of the Financial Intermediaries Association of Southern Africa, he explains that the following is a good rule of thumb: For every R4 000 you need per month after retirement, you will need to save R1 000 000, noting that if you are paying tax before you retire it is likely you will be taxed on your retirement income as well. This should ensure that you do not run out of money and will be able to give yourself an increase every year to protect your income against increases in living expenses. If you want R20 000 per month, you will have to save R5 000 000.

Note: Your retirement savings is specific to you as an individual and may differ from the example used above.

4.2 What the state provides

If you are a South African citizen or permanent resident, you can apply for an old-age grant. This used to be known as an old-age pension. You can apply for this even if you are receiving a pension and the pension and your other investments are smaller than the values shown below. The values change, so check to see if you qualify.

To qualify, you need to:

- Be at least 60 years old.
- Be a South African citizen, permanent resident or refugee.
- Live in South Africa.
- Not receive any other social grant.
- Not be cared for in a state institution.
- Not earn more than R86 280 a year if you are single or R172 560 a year if you are married.
- Not have assets worth more than R1 227 600 if you are single or R2 455 200 if you are married.

The grant amount is reviewed every year. The maximum amount you will get a month is R1 890. If you are older than 75, you will get R1 910 (based on the 2021 figures).

The grant is paid by SASSA – either you can collect cash at a pay point, or you can have the amount deposited into your bank or Postbank account.

4.3 Different types of retirement funds

You will hear different names when people speak about retirement funds and it is important to understand what each of these names means.

4.3.1 Pension funds

The most popular way to save for retirement is to join your employer pension fund. Not every company has a pension fund, though – Simphiwe's company does not. However, her elder brother, Sabelo, who works for an accounting firm, belongs to a company pension fund. It is compulsory for Sabelo to be a member of the fund, and his monthly contribution is automatically taken off his salary before tax is deducted. His employer also contributes to this fund.

Once a year, Sabelo will receive a **benefit fund statement** from his fund where he can take note of his benefits and whether they are increasing or decreasing. The example values will show what kind of pay-out is possible after Sabelo has invested a certain amount of money for a certain number of years. These numbers are not guaranteed – they are used to predict what you could end up with, depending on factors like financial market movements. The benefit statement also tells you where your money is invested.

Sabelo can find out more about his pension fund from the pension fund administrator, which is often a financial services company like a bank or insurer, that is appointed by the fund to receive contributions and distribute benefits in accordance with the rules of the pension fund.

When you retire

When Sabelo retires, which will be possible after he reaches the age of 55, he will be allowed to take up to one-third of his pension money (up to R500 000) as a tax-free lump-sum cash payment (2020). The balance must be re-invested in an annuity (investment product) that best suits his needs and can provide him with a monthly income. However, if the two-thirds of the total value of his pension does not exceed R165 000 he may receive the entire benefit as a lump sum payment.

Quick tip!

Ideally, you should leave as much as possible of your pension money invested even after retirement, regardless of the type of pension fund. For instance, while you may be entitled to one-third of your pension savings as a cash payment when you reach the age of 55, you are under no obligation to do so, and if you wish, you can transfer your entire pension to another fund for use later in life. Your aim should be the preservation of your savings for as long as possible. Also guard against using too much of your savings to start a new business (which may fail) or investing in risky ventures like a "get rich scheme" or risky investments like cryptocurrency.

While government has indicated (2021) that it is considering reviewing the borrowing requirements due to the impact that Covid-19 has had on the economy, make a decision to never borrow money from your retirement fund – and if you do, you should pay it back as soon as possible. Retirement funds are intended for retirement, and you should be careful not to use up all your retirement savings.

If you leave or lose your job, you automatically become a paid-up member of your retirement fund and your benefit will be preserved until you elect to either transfer it to another fund or withdraw it. Your pension fund must provide you with retirement benefits counselling, at the fund's cost, prior to withdrawal or retirement. Retirement benefits counselling will inform you about your options – however, it is not financial advice, and you may need to enlist the services of a registered financial planner should you require one.

What does it mean?

Benefit: A benefit is the money that gets paid from a retirement fund to a member or former member.

Benefit statement: A document that provides the details of your pension fund benefits and how your retirement savings have performed for a specific period.

Beneficiary nomination form: As a member of a retirement fund, you will be asked to choose or nominate one or more beneficiaries to receive what you have saved should you die before or during retirement. Keep this form up to date. For example, if you have a child, you may want to add his/her information on the beneficiary nomination form.

Quick tip!

You should check your payslip to ensure that your pension fund contribution is being deducted from your salary. In addition, you should also call your fund to find out if your pension deductions are being paid into your pension fund by your employer every month. If you do not check, you may find yourself with too little or no money in retirement.

Unclaimed benefits

If you have been retrenched, you resigned from your company, or you were named as the beneficiary of a member of a fund who died before they retired, you may be entitled to an unclaimed benefit.

An **unclaimed benefit** is money that has not been paid to a former employee or a beneficiary by a retirement fund within 24 months of the date on which the money became payable, as stipulated in the fund rules and the Pension Funds Act of 1956.

Sometimes, these benefits can still reside in the original fund or it may have been transferred into a specialised unclaimed benefit fund.

The FSCA can help you by enquiring if you have unclaimed benefits due to you or a family member for FREE. You can read more by visiting www.fscamymoney.co.za and reading through the Unclaimed Benefits resource or check online by visiting www.fsca.co.za or calling 0800 20 3722.

What does it mean?

Beneficiary: A person or a group of people who received money as a result of a deceased member contributing to a retirement fund or qualifying for surplus benefits.

Illegal tracers

Unfortunately, fraudsters also target unclaimed pension benefits. Although there are legitimate tracing agents who will help you track down benefits owed to you, there are also illegal tracers who will ask you for an upfront fee to help you trace your benefits. Legitimate tracing agents are paid directly by the fund and will never ask you for cash or a percentage of your pay-out.

Visit www.fscamymoney.co.za and read through the Illegal Tracers resource for more information.

Did you know?

As of September 2021, there was close to R42 billion in unclaimed pension benefits owed to 4.8 million South Africans.

4.3.2 Provident funds

Like a company pension, a provident fund is also a workplace fund. Contributions to a provident fund work in much the same way as a pension fund, however only you make contributions to the fund.

At retirement, you can receive one third in cash and use the other two-thirds to invest in a pension that best suits your needs (just like a pension fund, or a retirement annuity, which you can purchase).

Before 1 March 2021, you could receive your entire provident fund money when you retired. However, the law has since changed. If you were below the age of 55 years before 1 March 2021, you are now limited to receiving one-third of your benefit as a lump-sum payment and the remainder may be used to purchase an annuity, except where two-thirds of the total value does not exceed R165 000, in which case you may receive the entire benefit as a lump sum payment. All the money you saved before 1 March 2021, plus the investment growth on that money, can still be accessed as a lump sum. And people who were older than 55 years and did not transfer their benefits to a new fund will still be able to take their whole benefit as a lump sum (but will pay tax on this). Provident funds are treated in the same way as contributors to pension funds.

4.3.3 Retirement annuities

A retirement annuity is a type of personal pension plan, like having your own private pension scheme. It is usually separate from an employer's fund. It is a good option if you are self-employed.

As with a pension, you make monthly contributions to a retirement annuity and can withdraw up to one third of its value at retirement. The other two-thirds must be used to purchase an annuity to provide you with a regular monthly income after you retire. Depending on your chosen retirement age, you can access these funds from the age of 55 (or before then if you are disabled) – or you can leave them to grow until you are 75, for example.

You can invest in a retirement annuity directly with an insurance company or ask your financial advisor what financial product will suit you.

Unlike a company pension fund, changing jobs before retirement does not affect your annuity and, most importantly, you cannot tap into the fund as you can with a company pension fund when moving jobs.

4.4 Preservation funds

If you change jobs, are retrenched, or are dismissed/fired, you can transfer the money you have saved in your company pension fund into a preservation fund, where you preserve your savings until you retire. You can transfer the total amount you have saved without having to pay tax.

You can make one cash withdrawal from a preservation fund at any time before you retire. You can also borrow from your fund to buy or renovate a property, pay off a housing loan, or provide a guarantee for a housing loan (but not for any other purpose).

4.5 What happens to my retirement investment when I change jobs?

When you leave one workplace for another, you have four choices:

- Save (preserve) the money in the fund you belonged to (previous employer).
- Transfer the money to the fund of your new employer, untouched.
- Take a portion (withdrawal) of the money and then transfer the rest to a preservation fund.
- Take the benefit as a cash lump sum. However, early withdrawal attracts a tax penalty. The South African Revenue Service (SARS) reviews and updates the tax rate annually and you can check what these rates are with SARS or your financial advisor. This is not advised.

4.6 Retirement planning tips

- Be clear about your investment goal – when would you like to retire, and how much money will be enough? Ask your financial advisor to help you to work towards a goal.

- Know how much investment risk you are comfortable with. When you are young, you can afford to take on more risk in order to grow your money.
- If you are paying a financial advisor fees for advice, understand how those fees are made up. Fund manager Steven Nathan, the founder of 10X Investments, says if you are paying 1% fees to a financial advisor, this could reduce your retirement funds by around 20% or more after 30 or 40 years.
- Choose low-cost products rather than expensive ones and find out which products are the most tax-efficient – your financial advisor will be able to advise you on this.
- Take inflation into account – make sure you will have enough money to live on when prices go up.
- Make sure that you receive your retirement benefits on time – but put some extra money away just in case you do not.
- Do not cash in your pension if you need money – it is very difficult to recover, even if you start again, because compound interest has been working for you for years.
- If your investment is not performing well, do not just move your retirement funds to a new investment portfolio, which can cost you money. It is normal for share values to rise and fall. Stick to your long-term goal.

Government Employees Pension Fund (GEPF)

Government employees belong to the Government Employees Pension Fund (GEPF), which provides for normal and early retirement. If you are medically unable to work, they can also provide you with a pension pay-out.

The retirement age for GEPF members is 60. Members working for less than ten years receive a once-off cash lump sum. Members working for more than ten years receive a gratuity (a sum of money) and a monthly pension annuity.

Did you know?

The Government Employees Pension Fund (GEPF) is Africa's biggest pension fund, with more than 1.2 million members and assets worth R1.61 trillion. The FSCA does not regulate the GEPF.

For more information visit, www.gepf.org.za

GEPF™
your investment, your future

Chapter 5

HOW INSURANCE PROTECTS ME AND MY FAMILY

Chapter 5: How insurance protects me and my family

5.1 Introduction

Insurance may seem complicated, but it simply means transferring your risk to someone else (an insurance company) for a fee, which is called a premium.

Simphiwe has taken out health insurance and a funeral policy to protect her if she gets sick and pay for her funeral if she passes away. This is a good start. However, as the family's breadwinner, there are other types of insurance she should consider in the near future, which will help to protect her mother and Lebo.

Although Simphiwe has thought about cancelling her insurance to pay off her debt faster, this could be a very bad idea. Having no insurance can be financially devastating. What if Lebo gets sick and Simphiwe cannot afford to take her to hospital? What if Simphiwe passes away and her mother does not have money for her funeral?

Simphiwe's brother Sabelo is married with a son. The family was in a car accident recently and their vehicle was so badly damaged that the car had to be written off – that is, it could not be repaired. Fortunately, Sabelo had motor vehicle insurance, which meant that the insurer paid him out, so he could buy a replacement vehicle.

Insurance protects you against some of the negative life experiences we all have from time to time such as accidents, illness, theft and more. This is important, because these experiences may mean that you have to find a considerable amount of money quickly. This could prove difficult and/or expensive and, in the long run, these expenses will impact negatively on your general financial standing.

Let us look at some of the different types of insurance products that can protect you against various crises and setbacks.

Chapter 5

5.2 Types of insurance products

There are two broad types of insurance – life (long-term) and non-life (short-term) insurance:

Life insurance

Life insurance pays out a lump sum of money if you become ill or disabled, or when you die. Examples of life insurance include:

- **Life cover**: There are different types, like whole life cover products (which protects you against the risk of death), universal life cover products (similar to whole life cover, but also an investment product), and term insurance (fixed insurance for a set period of time only).
- **Disability cover**: Lump-sum disability cover pays out a specific amount of money if you are permanently disabled.
- **Income protector - disability**: This cover pays out a monthly income if you are temporarily or permanently disabled and cannot earn a salary.
- **Funeral cover**: If someone in your family passes away, you get a guaranteed pay-out of a fixed amount of money within 24-48 hours. This is different from a communal burial society, where each member saves up to help out when a family member passes away.
- **Endowment policy:** This policy is an investment product taken out for a stated number of years and allows you to nominate a beneficiary – that is, a loved one, family member or anyone you choose to receive the money invested in the policy upon your death before the stated end date of the endowment.

What does it mean?

Endowment policy: A savings plan with a built-in death benefit that is designed to pay out to you during your lifetime rather than to your beneficiaries after your death.

Non-life insurance

Non-life insurance covers you if your car is stolen, your house burns down in a fire, or you become disabled in an accident. The benefit should put you in the same position you were in before you suffered a loss. Examples of non-life insurance include:

- Motor vehicle insurance – South Africa's high crime rate makes car insurance vital. Premiums are usually calculated according to the make and age of your car, where your car is parked, and even how frequently you drive. If you purchase a brand-new car on credit, you will need to take out insurance before you collect your car to insure you against the risk of an accident – this is a requirement by the bank if you have financed the car. There are different types of car insurance that you can consider taking out, such as:
    - **Third-party liability insurance**: If you cause an accident and have to pay the other party involved, your insurer will cover the costs.
    - **Third-party liability, theft, and fire insurance**: This offers greater protection and covers the replacement of your vehicle if it is stolen or damaged by fire.
    - **Comprehensive insurance**: This covers repairs regardless of who is at fault in the case of an accident, and often includes roadside assistance.
    - **Limited insurance** which may only pay out if your car is a "write-off" (meaning that it is so badly damaged that it cannot be repaired).
    - **Pay-as-you-go insurance:** The newest type of insurance, pay-as-you-go (or usage-based) insurance is a low-cost option if you do not drive a lot. Your premium is based on your mileage, so the less you drive, the lower your premium. With pay-as-you-go insurance, you

can choose the type of cover you want. but you will still pay a lower premium if you keep your mileage below a set limit.

- **Household contents insurance** – it covers jewellery, furniture, TV and other items belonging to you or your family kept in the house.
- **Home or building insurance** – it covers your home, including the roof, walls, building materials, fittings and whatever you need to rebuild or repair your house.
- **Personal liability insurance** – it covers injury to a person that is not part of your household or damage to their property.
- **All risks insurance** – covers expensive items that you or your family own. If these items are taken out of the house and are lost, stolen or damaged, this insurance will cover them.
- **Personal accident insurance** – it pays out money if you or a member of your family is killed or injured in an accident.
- **Credit insurance** – if you buy furniture on credit, for example, and you are retrenched, it can pay for the balance outstanding, pause your payments, or pay your instalments for a few months. This will only apply if your policy premiums are paid up to date.

Non-life insurance companies also offer products covering health expenses. These are different from medical aid cover.

- **Health insurance**: This pays out when a specific health event occurs that is covered by the policy. This cover tends to be more limited than medical aid scheme cover, which offers benefits for up to 26 chronic medical conditions. A health policy does not pay in-hospital benefits.
- **Gap cover**: This provides extra protection for people who already have medical aid cover. Some medical professionals charge more than your medical aid is prepared to pay, so gap cover pays the difference. Gap cover is not allowed to pay out more than R150 000 per person each year.
- **HIV, Aids, tuberculosis and malaria testing and treatment**: This product covers the expenses of testing for these diseases.
- **Medical emergency evacuation or transport**: If you travel, this cover will protect you if you need to be airlifted to a hospital, for example.
- **International travel insurance:** This product covers you if you fall ill or have an accident in a country you may be visiting for work or on holiday.

Note that medical insurance is regulated by the Council for Medical Schemes (CMS), while life and non-life insurance are regulated by the Prudential Authority (PA) and the FSCA.

Planning for a funeral

Funeral plans ensure that your family members are financially protected if you die. Funeral plans vary – they include group and individual policies that cover your life but also the life of extended family members.

Basic funerals can cost anything from R2 000 to R100 000, depending on the package you choose – for example, you can opt for a cheaper coffin rather than an expensive one.

South Africans have a rich culture and funeral costs are often influenced by the need to keep up social appearances, however make sure you are not left out of pocket if a loved one dies and has only minimal cover. You also do not want to be in debt after your loved one has been buried.

Funeral plans cover the cost of a funeral and ensure that a sum of money will be paid out to the family, but some also offer a 'funeral package' that does not include a lump sum. Funeral cover should pay out within 24 hours.

You can buy a funeral plan through a burial home, through a bank or through your insurer. If you have a store card, check whether you opted for funeral cover – many stores offer optional funeral cover. Do not pay for another funeral policy if you already have one that meets your needs and budget.

If you have multiple funeral insurance products, remember that your premium will increase yearly on each one. This means that you will pay for more for each insurance product each year which could put you into financial difficulty. You can get one policy instead of paying multiple fees for multiple funeral cover products – saving you money in the long run.

A basic funeral plan can cost as little as R30 a month. If you are having difficulty paying your monthly premium, contact your insurer and ask them about your options instead of letting the policy lapse. Some insurers will reduce your payments, offer you a payment holiday or reduce your cover.

Check if your plan offers other benefits such as cover for accidental death, or repatriation (for non-South Africans who die in the country but want to be buried in their home country).

Important: When you make provision for your funeral, don't just aim for the most expensive option. Balance the need for a dignified send-off with the need to pay for your child's school fees or your retirement policy, for instance. Don't pay more for your funeral plan or policy than you can reasonably afford.

Quick tip!

Insurance companies will only pay the maximum benefit of R100 000 per life insured, per policy. This means that if you have multiple funeral insurance policies with one insurer – they will only pay up to the maximum cover of R100 000!

Nowadays, it is quite easy to buy insurance online, but there are so many products available, that it can get confusing. In many cases, the differences between the detailed policy wording of products that may appear to be the same may mean that they offer very different cover.

Just as buying the cheapest motor car is not necessarily the best choice, so the cheapest insurance policy is not always the best. Make sure that you shop around to find the right insurance product for your needs and budget. Get quotations from multiple insurers and do a comparison between the policy benefits, exclusions and limitations (what the policy does not cover), excess amounts (the amount that you must pay towards the loss when you make a claim) and the monthly premium. It may help to ask an authorised financial advisor what type of insurance is best for your needs. For more on financial advisors, see chapter 7.

For more information on life and non-life insurance, read the resources available at www.fscamymoney.co.za

Quick tip!

When you take out insurance, you enter into a legal agreement with the insurer. Your insurer will provide you with a policy document that sets out the terms and conditions of the agreement. Terms and conditions are the rights and responsibilities of parties to a contract, including general conditions as well as special conditions particular to the contract, like payment, price, penalties and so on.

Policy documents are written using legal terms. Read them carefully or ask that they be explained to you in simple language before you sign them. You can also ask for your policy documents in your home language or for someone to explain it to you in your home language.

Do not underinsure. For example, if your household contents are worth R500 000, do not insure it for less. In the event of a claim you may not be able to by the items your originally owned – and you will have to find cheaper items.

Did you know?

Funeral cover is not the same thing as life cover. A funeral plan takes care of your family's immediate needs and provides you with financial support during this most difficult life experience. It can also cover several family members in one policy. It pays out a limited amount of money, usually within 24 to 48 hours. By contrast, life insurance offers more extended support for an individual, with a larger lump sum that will cover things like paying for a child's education – costs beyond the funeral

Tips when choosing a funeral plan:

- Do not buy the first funeral plan you come across. Make sure that it suits your needs, circumstances and pocket.
- Do not take out multiple funeral insurance policies if you can have one that offers you the same benefits. You can get one policy instead of paying multiple fees for multiple funeral cover products – saving you money in the long run.
- If you are having difficulty paying your monthly premium, contact your insurer and ask them about your options instead of letting the policy lapse. Some insurers will reduce your payments, offer you a payment holiday or reduce your cover.
- Do not over-insure and do not underinsure!
- Take out a plan with a provider registered with the FSCA. Also look at your policy document – is it underwritten by a recognised insurer?
- Make sure that your policy is flexible enough to change as your life changes. What if your spouse is covered by you and you get divorced, or you opt for cremation rather than a burial?

Which non-life insurance policy is right for me?

The South African Insurance Association (SAIA) has a few guidelines you can consider in its consumer education booklet *What is Insurance*? The first thing to think about is affordability. If the premiums of a policy are too high compared to what you earn, it may not make sense for you to buy it. If you consider the premiums affordable, the main question is whether the premiums you will pay would still be less than the eventual loss you may suffer.

Example:

Let's say you have one accident in a period of 3 years and it costs R80 000 to fix your car. If your premiums cost R600 a month, then over the 3 years you would have paid about R21 600 in premiums (R600 x 12 months x 3 years). In other words, you would have received R80 000 in benefits for a loss of R21 600, and therefore you have benefited from insurance cover.

However, to do the above calculation when you are deciding to take out insurance is very complex as there are many factors to consider, such as premium increases, the exact financial losses you are covered for, excess payments, and so on. Also, the events you are covering with insurance may not even occur (e.g. you may never have a car accident).

SAIA suggests an easier way to decide whether insurance is suitable for you, may be to simply decide if, after deciding if the premiums are affordable, the insurance gives you peace of mind. Once you have bought your insurance, does the fact that you no longer have to worry about how you will pay for, for instance the replacement of damaged or stolen articles make you feel more comfortable and less stressed? If the answer to this is yes, then insurance may be suitable for you.

Also read through the general terms and conditions in a policy document. There you will find a list of what is not covered (the exclusions and exceptions) and where you cannot claim even though the insured item is damaged or lost. These specific lists of exclusions and exceptions can be different with each insurance company.

Here is a list of common exceptions:

- Intentional damage or loss of the insured item.
- Falsely claiming for something that is not lost or damaged.
- Misleading the insurance company so that the insurance company thought that the risk was lower than it actually was.
- Normal wear and tear of an item.
- Damage or injuries suffered before the policy was issued.
- War and riot risks.
- Involvement in illegal activities that damage the property.

In order to find the right insurance products, you need to get quotations from multiple insurers and do a comparison between the policy benefits, inclusions and limitations (what the policy does not cover), excess amounts and the premium. When it comes to non-life insurance, a financial advisor can provide you with options that suit your needs and your budget. Some financial advisors can only offer advice on specific financial products, whilst others can offer you with a range of financial product solutions form multiple product providers.

Shop around for the best product that suits your needs and your pocket. As you progress in life, for example you buy a house, or a car, or make more money, your insurance needs will change. It is important to keep your insurer up to date with any of these changes in order to have sufficient cover for emergencies.

5.3 Top insurance tips

- Make sure the person you are buying a policy from has the appropriate licence to sell that kind of insurance.
- Make sure you read and understand the insurance contract. Read it and know what you are signing. Do not let someone fill in your details for you – write them in yourself. Consult with a financial advisor if you are unsure.
- Do not hide any facts or details from your insurer – complete all information honestly and accurately, or you could be denied a pay-out later on.
- Your insurer should offer you a 'cooling-off' period if you discover that the product does not meet your needs and budget. Find out how long you have to cancel, it is usually 30 days.
- Always pay your premiums on time or the cover could lapse, putting your family members at risk. Find out if your insurer offers a 'grace period' for paying premiums late.
- When a death in the family occurs, submit the claim as soon as possible. Make sure you know how much time you have to submit the claim. An insurer can refuse to pay if the claim is late.
- Some policies will have a waiting period ranging from six to 12 months in order to protect the insurer from members who join only when family members are very ill. Find out what the waiting period in your policy is.
- If you have any insurance complaints, consult the Ombudsman for Short-Term Insurance or the Ombudsman for Long-Term Insurance as per the Useful Contacts at the end of this resource.

Quick tip!

Make sure that there is enough money in your account every month to cover your insurance premiums, which are deducted automatically (debit order), usually on the first of every month. Most short-term insurers allow a 15-day grace period for late payments – but if you cannot pay your insurer every month, your policies will lapse. Plus, you will be liable for bank charges and fees if your debit order bounces. If you reinstate your policy this also comes at a charge.

If you cannot pay your premiums, simply contact your insurer and ask them if you can make an alternative plan. Do not just run away! Insurers want to help you to meet your goals and may be able to work out a fair repayment plan. Remember: Insurance is there to protect you and your family during tough times – and life is full of tough times!

For more about paying insurance premiums, read the article 'Missed a premium payment? Here is what you should know' at https://www.fscamymoney.co.za/Pages/Missed-a-premium-payment-Here-is-what-you-should-know.aspx

Do I need a will?

A will is a document that sets out your wishes and what you would like to do with your money and possessions when you die. You can make a will if you are 16 or over and mentally competent. You must sign your will and have two witnesses sign it as well.

Dying without a will can bring hardship and financial difficulty to a family, so it is a good idea to have one. Even young people should have wills, especially if they have young children or assets like a house.

It is a good idea to ask a banker or attorney to help you to draw up a will. Stationery stores do have templates for simple wills, but it is best to have a professional help you, since financial matters can be complex. Wills drafted by those with little or no experience usually lead to problems. This is not only a problem in terms of the validity of your will, but also because a testator (you) is often unable to convey your true intentions in your own words. A will must also meet certain legal requirements for it to be valid. It is important to update your will, since you may have children, get divorced, or a friend can die, or you can simply change your mind. Working regularly with an authorised financial advisor will allow you to change details according to your various life experiences.

For more information on the importance of a Will, visit www.fscamymoney.co.za

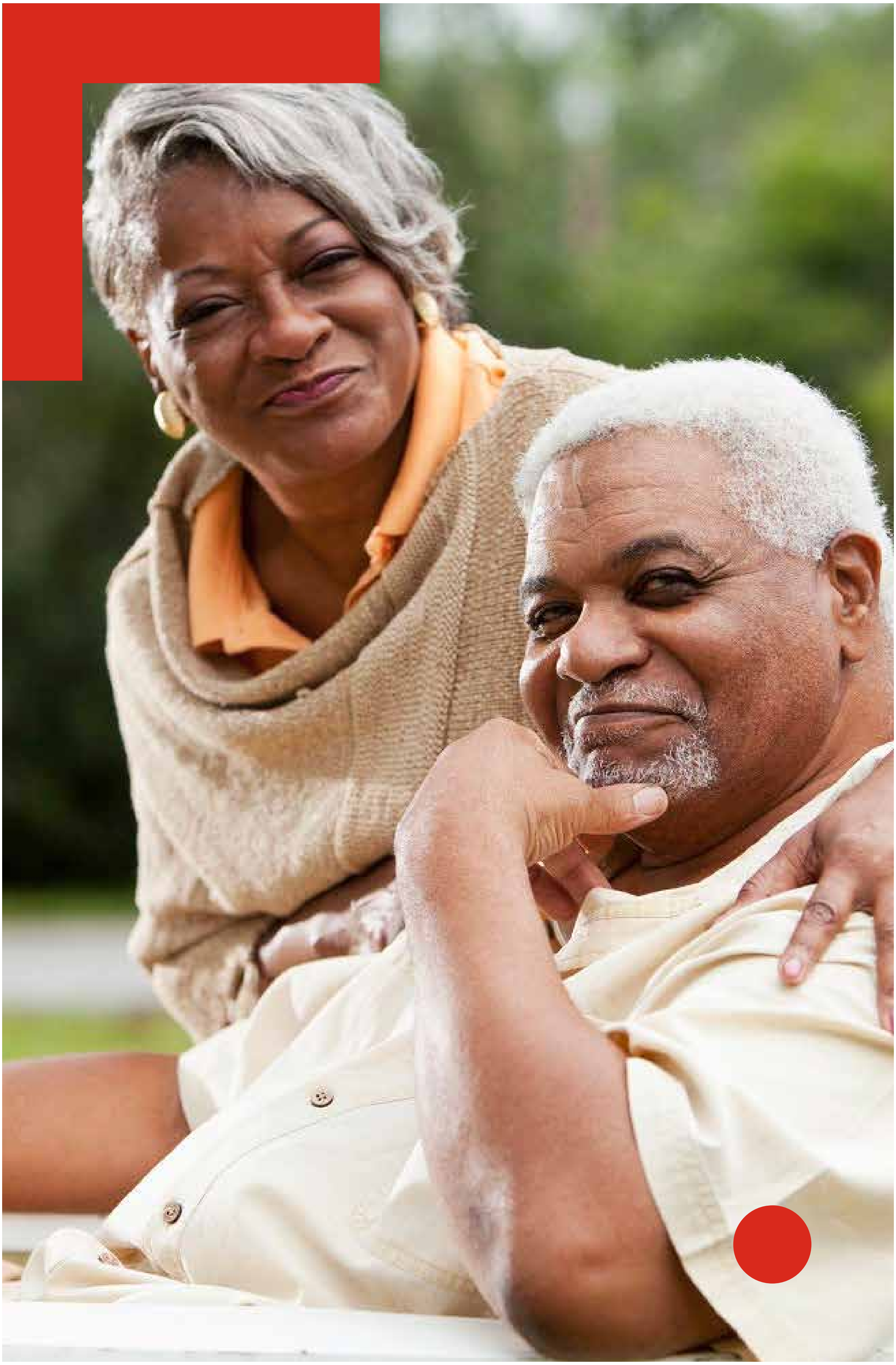
You can have a lawyer draw up a will for you for free during National Wills Week. For more information, visit: http://www.lssa.org.za/our-initiatives/advocacy/national-wills-week

Did you know?

In South Africa, more than 70% of working South Africans do not have a will when they die.

If you die without a will, you will lose the opportunity to decide who benefits from your estate. Instead, the law of interstate succession governs how your estate is divided. The Master of the High Court appoints an executor to administer your estate and may have to appoint a curator or tutor to look after the rights of your minor children and/or mentally challenges or disabled beneficiaries.

Read more about the law of interstate here: https://www.fscamymoney.co.za/Publications/Will%20and%20Testament%202021.pdf



Chapter 5

Chapter 6

GETTING FINANCIAL ADVICE

Chapter 6: Getting financial advice

6.1 Introduction

Simphiwe's flatmate Khumo is excited.

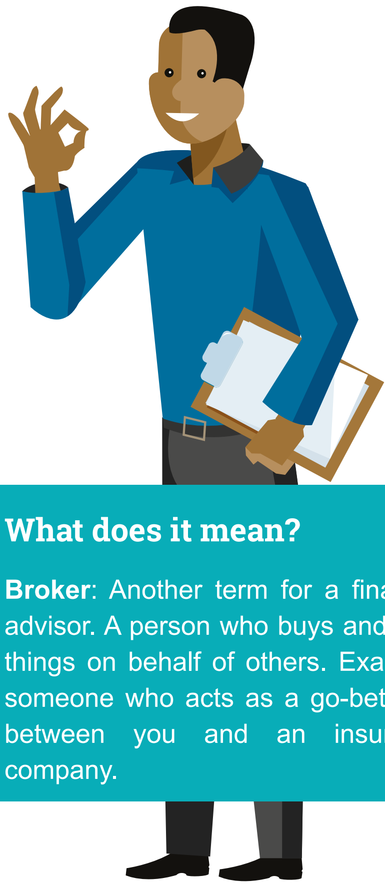
She is working with a financial advisor who is giving her advice about her financial goals. Her advisor has performed a needs analysis and affordability assessment to find out what Khumo wants from life. Khumo is already saving for retirement, but she wants to invest the R8 000 she has saved up and she also wants to take out life cover.

6.2 What is a financial advisor?

A financial intermediary or financial advisor (also sometimes known as a broker, agent or representative) is someone whose job it is to provide financial advice about financial products and how to use these to best meet your financial goals. Advisors may also sell financial products for various product suppliers.

They are industry experts with vast knowledge of which products are best suited to different needs, although, just as with any other type of job, some of them are more experienced and/or knowledgeable than others and so can offer better advice.

Some advisors, like those working for a particular bank or company, can sell you only the products and services offered by those businesses. They are known as 'tied' agents. 'Multi-tied' agents are brokers who can offer products from a few organisations only. Other advisors are independent and are not affiliated with any product providers.



What does it mean?

Broker: Another term for a financial advisor. A person who buys and sells things on behalf of others. Example: someone who acts as a go-between between you and an insurance company.

Robo-advisors

Sometimes you can get advice from a robo-advisor, an automated service that is driven by algorithms (sophisticated computer calculations). These 'advisors' gather online data about your financial situation and goals to generate advice. This advice tends to be more limited in nature as it does not factor in all the details of your financial life, including possible risks. However, it can be more affordable.

6.3 How a financial advisor helps me achieve my goals

An advisor can help you to:

- Work out what your financial situation is.
- Figure out what your short-term, medium-term and long-term financial goals are.
- Advise you on products that would best suit your needs and goals.
- Help you to draw up a budget.
- Provide you with continuous advice as your needs change – say, if you get married, change jobs, get closer to retirement, and so on.
- Help you to make changes where appropriate – like updating your will or upgrading to a better investment product, for example.

6.4 Where to find a financial advisor

A list of regulated entities and persons can be found on www.fsca.co.za

Make sure that your advisor is authorised to sell you financial products and services. The FSCA can tell you which products they can sell you and which services they can provide.

6.5 Questions to ask my financial advisor

Here are some questions to ask a prospective financial advisor:

- **Are you qualified and authorised?** Check if they are authorised with the FSCA and check what they are allowed to advise on – not everyone can advise on every financial product.

- **Do you have references?** A referral from a friend or family member is often a good way to choose a good financial advisor but ask for references from the financial advisor that you speak to.

- **What is the financial advice process that we will go through?** Most financial planning advice follows an internationally

recognised six-step process to identify your current financial knowledge and needs. The gap between your current situation and your goals is what will create your financial plan.

- **How often will I meet with you?** Your circumstances change. You should meet with your financial advisor at least once a year to review your plan. For example, if you purchase a house, or have a baby/get married.

- **Do you have someone who can step into your shoes?** If something happens to your financial advisor, is there someone else who can manage the relationship?

- **Which companies do you deal with?** Your financial advisor should be connected to reputable financial service providers. Do they receive training to keep them up to date with industry changes, and do they have access to other financial planning experts (e.g., estate duty, taxation and trusts)?

- **Why is this financial product right for me?** The financial product must meet your needs and suit your budget, so make sure you understand the product benefits, term, and any restrictions on claims or withdrawals as well as how much a financial product will cost you.

- **What do you charge, and what will you provide for this fee?** It is important to understand how your financial advisor earns an income. Find out how this will affect and benefit you. Make sure that you are going to get value for money. Some financial advisors build their advice fee into a financial product that you may buy from them.

- **Please supply me with**: The code of conduct for intermediaries and the fit and proper requirements according to the FAIS Act. The fit and proper requirements are important for financial customers as they set the honesty and integrity, competency and operational ability requirements for all FSPs, key individuals and representatives.
- Can you give me an appointment letter setting out the scope of the services you offer?
- Will you perform a financial needs analysis for me?
- Will you help me to assess my risk profile?
- Will you explain difficult concepts to me in plain and simple English?
- What if I want my policy explained to me in my home language?
- Can you provide me with all details regarding products you select for me, including costs, premiums, exclusions, waiting periods, cooling-off periods, and how the claims process will work?
- Are you able to handle my insurance claims for me?
- Can you advise me on the tax implications of these products?
- Where can I complain if I have a problem with you as the financial advisor or against the FSP?

What does it mean?

Exclusions: Exclusions are specific items, losses or events that are not covered in terms of your policy.

Financial services provider (FSP): A person or company licensed by the FSCA to give financial advice, provide financial services, and sell you financial products such as life and non-life insurance policies (previously referred to as short- and long-term insurance).

Chapter 6

What if I cannot afford a financial advisor right now?

This question is often answered by a quick reply of "Can you afford ***not*** to have a financial advisor?" While this is a valid answer because authorised financial advisors can make a real difference to your investments, for someone just starting, you may not need a financial advisor just yet.

For now, just open a savings account and start saving. Once you have saved up a solid amount, say R10000 or more, you can make an appointment with an authorised financial advisor who can help you invest your money and help you plan the way forward. You can also contact or visit a financial institution and ask for factual information about the different options at your disposal at your current life experience. It is worthwhile to speak to different providers so that you can compare the benefits, risks and costs of the products and services available. This information will be given at no cost to you and can help you to make a more informed decision.

More information and complaints

In South Africa we have very good laws around the protection of financial customers and the regulation of the financial services industry, including banks. There are organisations that have been put in place to assist consumers with queries or concerns and each company has their own internal complaints handling process.

When it comes to these laws, financial services providers must be aware of their responsibilities in terms of the Financial Advisory and Intermediary Services (FAIS) Act. In addition, the General Code of Conduct states that customers must be treated fairly – this is underlined by the Treating Customers Fairly (TCF) regulatory framework set up by the FSCA.

Therefore, if you are unhappy about the financial products or services you receive, you have a few options available to you. For example, there may be times where you may need to lodge a complaint against a financial services provider about the cost or quality of a service or financial product, or about the performance of an investor. If the company is unable to resolve the matter to your satisfaction, you can take the issue to the relevant industry body for free, who will further investigate or advise on the nature of your complaint. This involves the submission of all correspondence, contracts, documents and your complaint to the relevant Ombudsman. Refer to the Useful Contacts sector for more information on the complaints process.

Meet Ms Karen MacKenzie,

Independent financial advisor

Q: Why does someone need a financial advisor?
A: The main reason is helping you to reach your financial goals and objectives. An advisor is a sounding board for your financial decisions. Above all, an advisor should help you to plan. They do not have to be product specialists – they can research various products that may be part of what you need to help you to reach your goals. But they should help you with big-picture planning. Younger clients who are perhaps not very financially literate need a trusted advisor who can explain concepts to them and help them if they get stuck. Well-informed professional people require a coach or mentor to help them stay the course with their investments – almost like a conscience preventing them from making poor decisions. You go to an advisor for the same reason you go to any professional – for their expertise and advice. And it has been proven that people with advisors experience better financial returns on their investments.
Q: What does financial advice cost?
A: Historically, advisors were paid based on the sale or distribution of financial products, rather than paid for advice, which was frustrating. As a practice, we have a fee-based model where we are remunerated for our services, either directly from clients or indirectly through product providers, or a combination thereof. But we always tell our clients upfront what they can expect to pay. We also do not charge twice – so if we are remunerated by a product provider, we do not charge the client for advice.
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Q: How often should I consult a financial advisor?
A: Clients have different emotional behaviours – some are anxious and need to speak to their advisor once a quarter. Some are more relaxed and trusting and are happy with a yearly meeting. But you should also speak to an advisor if something changes in your life – if you experience a birth, divorce, or death, for example, or you want to buy or sell a property or a business. It really depends on where a client is in their life, and if they are reinvesting existing money, or investing new money. As a guideline, a half-hour check-in once a year is fine, unless you are going through a major change that will affect your finances.
Q: What can I expect from my financial advisor?
A: You should expect your advisor to be honest and not pretend that everything is fine if it is not. You have a right to independent, impartial professional advice in line with your circumstances, needs and level of financial literacy. You do not want someone to just sell you a product and move on – you want to partner with someone who understands your needs and can guide you through any conditions. Advisors work hard to keep clients invested – people tended to panic during the financial crisis of 2008 and of course Covid-19 in 2020. Above all, they should understand your goals and help you to get there, even if you have psychological wobbles.

USEFUL CONTACTS

Useful Contacts

The organisations listed below can assist you if you have a complaint or if you want more information. You have a right to complain if you are not satisfied with the service/financial product received from an insurance company, a financial advisor/financial service provider.

Follow the following steps in the complaints process:

Step 1:	Step 2:	Step 3:
Contact the relevant company or entity whose conduct you want to complain about and give them the opportunity to respond.	If you are not happy with their response you may refer your complaint to the relevant Ombudsman.	If you are still not satisfied with their response, you may contact the FSCA.

FINANCIAL SECTOR CONDUCT AUTHORITY (FSCA)

To check if an FSP or financial advisor is authorised to sell you financial products and services, as well as which products and services as well as which products they can sell you contact the FSCA. You can also report forex and other investment related scams to the FSCA.

Call centre	0800 20 3722 (FSCA)
Telephone	012 428 8000
Fax	012 346 5616
Email	enquiries@fsca.co.za or complaints@fsca.co.za
Postal address	P.O. Box 35655, Menlo Park, 0102
Physical address	Riverwalk Office Park, Block B, 41 Matroosberg Road (Corner Garsfontein and Matroosberg Roads), Ashlea Gardens, Extension 6, Menlo Park, Pretoria, 0081
Website	www.fsca.co.za

For more consumer **financial education** information or to request a free workshop, contact the **FSCA's Consumer Education Department.**

Email	ced.consumer@fsca.co.za
Website	www.fscamymoney.co.za

OFFICE OF THE PENSION FUNDS ADJUDICATOR (OPFA)

The PFA resolves complaints in order to uphold the integrity of the pension fund industry and to protect the interest of pension fund members. If you are unable to resolve problems related to your pension, provident, preservation or retirement fund with your employer, you can lodge a complaint with the OPFA.

Sharecall	086 066 2837
Telephone	012 748 4000 / 012 346 1738
Fax	086 693 7472
Email	enquiries@pfa.org.za
Postal address	P. O. Box 580, Menlyn, 0063
Physical address	4th Floor, Riverwalk Office Park, Block A, 41 Matroosberg Road Ashlea Gardens, Pretoria, 0081
Website	www.pfa.org.za

OMBUD FOR FINANCIAL SERVICE PROVIDERS (FAIS OMBUD)

The FAIS Ombud promotes consumer protection and aims to enhance the integrity of the financial services industry through resolving complaints impartially, expeditiously and economically. If you have a complaint about your financial advisor or financial services provider, contact the FAIS Ombud.

Call centre	086 066 3274
Telephone	012 762 5000
Fax	012 348 3447
Email	info@faisombud.co.za
Postal address	P.O. Box 74751, Lynnwood Ridge, 0040
Physical address	Menlyn Central Office Building, 125 Dallas Avenue, Waterkloof Glen, Pretoria, 0010
Website	www.faisombud.co.za

CREDIT OMBUD

The Credit Ombud resolves complaints from consumers and businesses that are negatively affected by credit bureau information or when a consumer has a dispute with a credit provider. For information on the credit industry or to lodge a complaint against credit bureaux or creditor providers, you can contact the Credit Ombud.

Call centre	0861 662 837 or SMS ‘Help’ to 44786
Fax	086 674 7414
Email	ombud@creditombud.org.za
Postal address	P.O. Box 805, Pinegowrie, 2123
Physical address	Fernridge Office Park, 5 Hunter Street, Ferndale, Randburg, Johannesburg, 2194
Website	www.creditombud.org.za

OMBUDSMAN FOR BANKING SERVICES SOUTH AFRICA (OBS)

The OBSSA resolves individual complaints about banking services and products. If you are unhappy with the service you receive from your bank or the resolution of a complaint by your bank, you can contact the office of the OBS.

Call centre	0860 800 900 /WhatsApp 066 473 0157
Telephone (switchboard)	011 712 1800
Email	info@obssa.co.za / workshops@obssa.co.za
Postal address	P.O. Box 87056, Houghton, Johannesburg, 2041
Physical address	34 & 36 Fricker Road, Ground Floor, Illovo, 2041
Website	www.obssa.co.za

OMBUDSMAN FOR LONG-TERM INSURANCE

The Ombud resolves disputes between complainants and insurers arising from long-term insurance policies. If you have complaints related to life cover, funeral policies and other long-term insurance matters you can contact the Ombudsman.

Sharecall	0860 103 236
Telephone (switchboard)	021 657 5000
Fax	021 674 0951
Email	info@ombud.co.za
Postal address	Private Bag X45, Claremont 7735
Physical address	Third Floor, Sunclare Building, 21 Dreyer Street, Claremont, Cape Town, 7700
Website	www.ombud.co.za

OMBUDSMAN FOR SHORT-TERM INSURANCE (OSTI)

OSTI provides consumers with a free dispute resolution mechanism. If you have a dispute with members of the short-term insurance industry you can contact the OSTI.

Call centre	0860 726 890
Telephone (switchboard)	011 726 8900
Fax	011 726 5501
Email	info@osti.co.za
Postal address	P.O. Box 32334, Braamfontein, 2017
Physical address	1 Sturdee Avenue, 1st Floor, Block A, Rosebank, Johannesburg, 2196
Website	www.osti.co.za

MOTOR INDUSTRY OMBUDSMAN OF SOUTH AFRICA (MIOSA)

This is an independent institution that focuses on the resolution of disputes where a deadlock has been reached between the motor industry and their customers. While the service is free, should it prove necessary that a technical inspection has to be carried out, the costs incurred during such an inspection will be paid by the complainant.

Telephone	010 590 8378/ 066 373 8986
Fax	086 630 6141
Email	info@miosa.co.za
Postal address	Suite 156, Private Bag X025, Lynnwood Ridge, 0040
Physical address	Meiring Naude Road, Scientia 627-Jr, Pretoria, 0184
Website	www.miosa.co.za

CONSUMER GOODS AND SERVICES OMBUDSMAN (CGSO)

This office was established to guide the consumer goods and services industry on expected minimum standards of conduct and resolve disputes between consumers and suppliers. If you have unresolved complaint against a supplier, contact the CGSO.

Sharecall	0860 000 272
Telephone	011 781 2607
WhatsApp	081 335 3005
Fax	086 206 1999
Email	info@cgso.org.za
Postal address	P.O. Box 3815, Randburg, 2125
Physical address	292 Surrey Avenue, Ferndale, Randburg, Johannesburg
Website	www.cgso.org.za

TAX OMBUDSMAN

If you are unable to resolve a service, procedural or administrative complaint through the usual complaint's management channels of SARS, you can contact the Tax Ombud.

Toll-free	0800 662 837
Telephone	012 431 9105
Fax	012 452 5013
Email	complaints@taxombud.gov.za
Postal address	P.O BOX 12314, Hatfield, 0028
Physical address	Menlyn Corner, 2nd Floor, 87 Frikkie De Beer Street, Menlyn, Pretoria, 0181
Website	www.taxombud.gov.za

SOUTH AFRICAN INSTITUTE OF STOCKBROKERS (SAIS)

SAIS is the professional body for stockbrokers and other financial markets professionals in South Africa and sets and maintains the qualification standards for financial markets professionals. If you want to make sure a stockbroker has passed the SAIS exams, you can give the institute a call or email them with your query.

Telephone (switchboard)	011 853 8702
Email	sais@sais.co.za
Physical address	51 West Street, Houghton Estate, Johannesburg
Postal address	Postnet Suite 86, Private Bag 10020, Edenvale, 1610
Website	www.sais.co.za

THE SOUTH AFRICAN RESERVE BANK (SARB)/PRUDENTIAL AUTHORITY (PA)

The SARB protects the value of the South African rand and works to enhance and protect financial stability. The bank has established an independent external hotline service that enables whistle-blowers to report wrongdoing related to the business of the SARB and guarantees employees and members of the public their anonymity if they so choose. If you want to report a commercial crime or unethical behaviour, you can contact the SARB.

Call centre	0861 12 7272 (SARB) 0800 384 425 (Reporting of commercial crimes or unethical behaviour)
Telephone	012 313 3911 (PA)
Fax	012 313 3197/3929
Email	SARB-PA@resbank.co.za PA-Info@resbank.co.za sarbfnsdept@resbank.co.za (reporting of cross-border fraud and scams)
Physical address	370 Helen Joseph Street, Pretoria, 0002
Postal address	P.O. Box 427, Pretoria, 0001
Website	www.resbank.co.za

THE FINANCIAL INTELLIGENCE CENTRE (FIC)

If you suspect money-laundering activities, contact the Compliance and Prevention Contact Centre at the FIC.

Telephone	012 641 6000
Fraud hotline	0800 203 558
Fax	012 641 6215
Email	TFSsupport@fic.gov.za
Physical address	Doornkloof 391-Jr, Centurion, 0157
Postal address	Private Bag X177, Centurion, 0046
Website	www.fic.gov.za

GOVERNMENT EMPLOYEES PENSION FUND (GEPF)

The GEPF manages and administers pensions and other benefits for government employees in South Africa. If you have any complaints regarding your pension and you work for the South African government, contact the GEPF.

Telephone	0800 117 669
Fraud helpline	0800 203 900
Fax	012 326 2507
Email	Enquiries@gepf.co.za
Physical address	34 Hamilton Street, Arcadia, 0083
Postal address	Private Bag X63, Pretoria, 0001
Website	www.gepf.co.za

NATIONAL CREDIT REGULATOR (NCR)

The NCR aims to support the social and economic advancement of South Africa by regulating for a fair and non-discriminatory marketplace where consumers can access credit, and promoting responsible credit granting and credit use, and effective redress. If you need information or have a complaint against credit providers, credit bureaux and/or debt counsellors, you can contact the NCR.

Call centre	0860 627 627
Telephone	011 554 2700
Email	info@ncr.org.za / complaints@ncr.org.za /workshops@ncr.org.za
	Debt counselling related complaints: dccomplaints@ncr.org.za
Postal address	P.O. Box 209, Halfway House, 1685
Physical address	127-15th Road, Randjespark, Midrand, 1683
Website	www.ncr.org.za

NATIONAL STOKVEL ASSOCIATION OF SOUTH AFRICA (NASASA)

NASASA registers and monitors stokvels across South Africa. It offers educational and information services to members. To check if a stokvel is registered, contact NASASA.

Telephone	087 898 0987
Email	info@nasasa.co.za
Physical address	Kildrummy Office Park, Building 8 Glenfiddich, Witkoppen Road & Umhlanga Avenue, Paulshof, Sandton, 2191
Website	www.nasasa.co.za

THE FINANCIAL INTERMEDIARIES ASSOCIATION OF SOUTHERN AFRICA (FIA)

The FIA represents approximately 2 000 financial services providers, including multinational, large, medium and small businesses. Their members operate in healthcare, long-term insurance, short-term insurance, employee benefits and investments.

Telephone (switchboard)	012 665 0085
Email	questions@fia.org.za
Physical address	Corporate Corner, Unit 9, Corner Marco Polo Street and John Vorster Drive, Centurion
Postal address	P.O. Box 11901, Centurion, 0046
Website	www.fia.org.za

NATIONAL CONSUMER COMMISSION (NCC)

The NCC regulates the interaction between consumers and businesses in South Africa and wants to ensure the economic welfare of consumers. If your consumer rights in the purchasing of goods and services were not respected by suppliers as per the Consumer Protection Act (CPA), you can contact the NCC.

Telephone (switchboard)	012 428 7000
Fax	086 758 4990
Email	Enquiries@thencc.org.za
	complaints@thencc.org.za
	If you have complaints about specific sectors, you can use these email addresses: Timeshares: timeshareinquiry@thencc.org.za
	Legal Advisory: advisory@thencc.org.za
Postal address	P.O. Box 36628, Menlo Park 0102
Physical address	Building C – South African Bureau of Standards Campus, 1 Dr Lategan Rd, Groenkloof, Pretoria, 0027
Website	www.thencc.gov.za

COUNCIL FOR MEDICAL SCHEMES (CMS)

The CMS provides regulatory supervision of private health financing through medical plans. For complaints about medical schemes' services and products contact the CMS.

Telephone	0861 123 267 / 012 431 0500
Fax	086 673 2466
Email	information@medicalschemes.co.za / complaints@medicalschemes.com
Postal address	Private Bag X34, Hatfield, 0028
Physical address	Block A, Eco Glades 2 Office Park, 420 Witch – Hazel Avenue, Centurion, 0157
Website	www.medicalschemes.com

SOUTH AFRICAN INSURANCE ASSOCIATION (SAIA)

SAIA represents the interests of the non-life insurance industry, encourages fair and ethical treatment of customers of non-life insurance products and fights insurance crime, especially insurance fraud. If you want to verify if an insurance company is legitimate or if you want to learn more about non-life insurance, you can contact SAIA.

Telephone (switchboard)	011 726 5381
Fax	086 758 4990
Email	info@saia.co.za
Postal address	P.O. Box 5098, Weltevredenpark, Johannesburg 1715
Physical address	Ground Floor ,Willowbrook House, Constantia Office Park, C/O 14th Avenue &, Hendrik Potgieter Rd, Weltevredenpark, Johannesburg, 1715
Website	www.saia.co.za

SOUTH AFRICAN REVENUE SERVICE (SARS)

SARS is South Africa's tax collecting authority and administers the South African tax system and customs service. If you have a query or a question regarding your tax, you can contact SARS.

Contact centre	0800 00 7277
Telephone (switchboard)	012 422 4000
Fax	012 452-9685
Email	contactus@sars.gov.za
Postal address	Private Bag X923, Pretoria 0001
Physical address	Lehae La SARS Building, 299 Bronkhorst Street, Nieuw Muckleneuk, Pretoria, 0181
Website	www.sars.gov.za

SOUTH AFRICAN SAVINGS INSTITUTE (SASI)

The purpose of SASI is to develop a robust culture of saving in South Africa. If you want to learn more about saving, contact SASI.

Telephone (switchboard)	011 269 3683
Fax	086 552 7561
Email	info@savingsinstitute.co.za
Physical address	19 Fredman Drive, Esterhysen House, Sandton 2196
Postal address	PO Box 252, Bramley, 2018
Website	www.savingsinstitute.co.za

THE ASSOCIATION FOR SAVINGS AND INVESTMENT SOUTH AFRICA (ASISA)

ASISA represents the savings, investment and insurance industry that contributes trillions of Rands to South Africa's economy and promotes a culture of savings and investment. If you want to learn more about saving, investing and insurance, contact ASISA.

Telephone (switchboard)	021 673 1620
Email	info@asisafoundation.org.za
Physical address	3rd Floor, Sandton Close 2 – Block A, Norwich Close,
	Sandton, 2196
Postal address	P.O. Box 23525, Claremont, 7735
Website	www.asisa.org.za

COUNCIL FOR DEBT COLLECTORS (CFDC)

The Council for Debt Collectors ensures the fair recovery of debts and makes provision for the regulation and control of fees charged by debt collectors. If you have a complaint against a debt collector, debt counsellor or credit provider contact the CFDC.

Telephone (switchboard)	012 804 9808
Email	info@cfdc.org.za
Physical address	310 Brooks Street, Menlo Park, Pretoria, 0081
Postal address	PO Box 35629, Menlo Park, 0102
Website	www.cfdc.org.za

RSA RETAIL SAVINGS BONDS

RSA Retail Savings Bonds have been designed to be as accessible as possible for the general public to invest their money, while earning secured and market related returns on their investments. This is an investment with the Government of South Africa which earns fixed or inflation linked interest for the term of the investment. Contact them for alternative savings options.

Telephone (switchboard)	012 315 5888
Fax	012 315 5675 or 012 315 5314
Email	queries@rsaretailbonds.gov.za
	complaints@rsaretailbonds.gov.za
Physical address	240 Madiba Street, Cnr Thabo Sehume and Madiba Street, Pretoria, 0002
Website	www.rsaretailbonds.gov.za

SMALL ENTERPRISE FINANCIAL AGENCY (SEFA)

SEFA provides financial products and services to qualifying SMMEs. Contact them for more information on funding your business.

Telephone (switchboard)	012 748 9600 (Fraud hotline) 0800 000 663
Email	helpline@sefa.org.za / talktous@sefa.org.za
Physical address	Byls Bridge Office Park, Cnr Olievenhoutbosch Street & Jean Avenue, Building 14, Block D,11 Byls Bridge Boulevard, Highveld Extension 73, Centurion, 0157
Website	www.sefa.org.za

DEPARTMENT OF TRADE, INDUSTRY AND COMPETITION (DTCI)

The DTI is the primary agency in the promotion and development of MSMEs through the provision of various assistance and interventions, e.g., financing, marketing and promotion, human resource development, product development, and advocacy.

Telephone (switchboard)	0861 843 384
Email	contactus@thedti.gov.za
Physical address	77 Meintjies Street, Block A, 3rd floor, Sunnyside, Pretoria, 0002
Postal address	Private Bag X84, Pretoria, 0001
Website	www.thedti.gov.za

COMPANIES AND INTELLECTUAL PROPERTY COMMISSION (CIPC)

The CIPC's main function is the registration of companies, co-operatives, and intellectual Property Rights (trade-marks, patents, designs and copyright) and the maintenance thereof. For a list of their other services or to register your business, contact the CIPC.

Telephone (switchboard)	086 100 2472
Email	eservicescoreg@cipc.co.za / companydocs@cipc.co.za
Physical address	Pretoria Service Centre, Sancardia Mall, 1st floor, 541 Madiba Street, Arcadia, 0001
Postal address	Companies: PO Box 429, Pretoria, 0001 Intellectual Property: Private Bag X400, Pretoria, 0001 Co-operatives: Private Bag X237, Pretoria, 0001
Website	www.cipc.co.za / www.biz-portal.co.za

SMALL ENTERPRISE DEVELOPMENT AGENCY (SEDA)

SEDA's mission is to promote entrepreneurship and develop small enterprises by providing customised non-financial business support services that result in business growth and sustainability in collaboration with other role players. Contact SEDA to get guidance on how to start your business.

Telephone (switchboard)	011 408 6520/6528
Fax	011 408 6515
Email	infogp@seda.org.za
Physical address	2nd Floor, Forum 5 Braam Park, 33 Hoof Street, Bramfontein
Website	www.seda.org.za

For a list of references kindly email CED.Consumer@fsca.co.za

Financial literacy for all

Free resources available to the public

As South Africans we know that financial literacy is important, and research indicates that there is a lack of understanding of financial products, financial terms and how the world of money works.

In order to build on these missing foundational information blocks, the FSCA has produced a number of consumer financial education (CFE) resources, with a focus on simplicity. This information is intented to empower consumers to make better informed decisions around finances which leads to living a financially well life - and it's distributed at no cost.

Resources

- Consumer Insurance Tips
- Pyramid Schemes - Will your investment take you to the top?
- Unclaimed Benefits
- Unlicensed Tracers
- Your Last Will and Testament
- Savvy Savers Budget Booklet
- Life Insurance
- Non-life Insurance
- Shares
- Collective Investment Schemes
- Retirement Funds
- FSCA Investor Guide
- Smart Money Guide for Tomorrow's leaders

Currently in development:

- Funeral Insurance
- Credit Insurance
- Medical Aid versus Medical Insurance
- Credit Ratings

Most of the resources above, are available in the official South African languages and will be available online later in the year.

For your copy, email info@CED.Consumer.co.za or visit www.fscamymoney.co.za and click on the Resources tab.

In addition to resource development the FSCA is committed to providing financial customers and potential financial customers with financial education programs, and otherwise promoting financial literacy in order for financial customers to make sound financial decisions. To find out how to get involved for for general enquiries/requests for presentations, kindly email the HOD of Consumer Education,
Lyndwill.Clarke@fsca.co.za or Enquiries@fsca.co.za

In 2019, the FSCA developed its MyMoney Learning Series, a facilitated financial literacy program used to disseminate CFE information in a creative and entertaining way with a peer to peer learning approach. The FSCA's MyMoney Learning Series also caters for the blind, partially sighted, deaf and hard of hearing. If you would like permission to use this material or to find out more, email Alicia.Moses@fsca.co.za

DISCLAIMER

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FSCA

Financial Sector
Conduct Authority