

# RANDS&SENSE

Helping members make sense of their retirement fund

## South Africans worried about finances; want more financial education

**South Africans' savings habits were placed firmly in the spotlight earlier this year with the release of the fourth Old Mutual Savings Monitor, which shows a decrease in savings levels and a polarisation in attitudes toward saving.**

More than 82% of respondents want advice on overall money management, while 22% of South Africans have been affected by retrenchment, either directly or indirectly, including loss of earnings such as commission, and unemployment among family members.

Old Mutual's chief researcher Lynette Nicholson says South Africans' belief in being able to manage their money has fallen and their mean satisfaction level with their finances has declined from 6.5 to 5.7 out of 10.

The survey of working metropolitan households in South Africa found that more people are saving less than they did before. This is worrying as the previous Old Mutual Savings Monitor, released in November 2010, indicated a slight improvement in saving patterns.

What's more, 82% of respondents say the recession has affected them in some way, irrespective of their income levels.

Most people have reacted in one of two ways. Some are so unnerved by the state of their finances that they're ignoring them and thus aggravating their problems. But a second group has taken cognisance of the need to act and is doing so.

The research categorises these groups as Panicked Procrastinators and Contented Organisers. They are found across all income groups, showing that even people with modest incomes are able to save, and that conversely, well-off people are by no means immune to poor savings habits and the consequences.



It seems that there is an urgent need to empower the Panicked Procrastinator group to become Contented Organisers. Read on to see what type of saver you are and take the necessary action...

do great things

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# Panicked Procrastinator or Contented Organiser - What type of saver are you?

**What type of saver you are does not depend on the income you earn. Panicked Procrastinators and Contented Organisers are found across a range of income groups. The research that Old Mutual has done shows that even people who earn large salaries can be Panicked Procrastinators whereas many Contented Organisers are in low-income households. So which type of saver are you, and what can you do about it?**

## Panicked Procrastinator

You are so worried about your finances that you ignore what is going on in that sector of your life... and unfortunately you get the clear impression that your financial problems are just becoming worse and worse.

### YOU SHOULD:

Make up your mind to get in control of your finances. Draw up a budget; think about your future needs and time-line. Read **Saving tips** below. Consider speaking to a financial adviser or debt counsellor to help you get debt under control and to start saving enough for retirement and other events, such as your children's education.

## Contented Organiser

You are concerned about your finances and have realised that you need to take control by understanding what is going on in your finances and by taking the action necessary to address any problems.

### YOU SHOULD:

Keep up the good work by doing regular financial planning and protect the savings you have built up over time. Read **Saving tips** below.

## Saving tips

- **Live economically.** Don't buy things you don't need and don't try to keep up with friends and neighbours. Everybody's needs are different. Live according to yours.
- **Saving is a mind-set.** Save water, electricity and money. Don't waste anything of value – recycle, pass on old clothes, swap children's toys with other parents instead of buying new ones and convert things you no longer use into money by selling them.
- **Teach your children to save from an early age.** They need to know about the household budget. Set them to work for their pocket money. Help them learn that making a financial decision is about weighing up the value of one thing against another and choosing which one to forgo.
- **Look after the things you have.** Take pride in what you have worked hard for. Respect your own efforts and feel good about what you have achieved.
- **Don't make excuses about why you don't save.** Saying "I am too young" or "I'll save next month" or "Only rich people can save" won't get you anywhere.
- **Start saving early for retirement.** Start saving consistently and seriously for your retirement years from the day you start your first job. Enjoy the magic of compound interest. Put aside at least 15 percent of your income each month in a safe investment.
- **Use credit sparingly and carefully.** It's cheaper and more rewarding to wait until you have saved the funds yourself. It's better to spend money you have earned than spend money you still have to make.
- **If you are in debt, pay it off as fast as you can.** Handle your credit cards and store cards very carefully. And remember, cuts in the interest rate should be used to settle debt first, not to take on more debt.
- **Shop around before you buy.** Compare prices and benefits. Question the value of each purchase as you make it. "Will it build my assets? Is it just to show-off? Is it cheaper elsewhere?" Don't ever be afraid to ask questions when you want to know more.



## Not preserving benefits - a typical downfall of Panicked Procrastinators



**Many people (especially those who would have to admit to being Panicked Procrastinators!) see their retirement fund payout on resignation or when changing jobs, as a bonus to spend on that new car, clothing or a holiday. However, while it is certainly tempting to take the cash, it could be a costly option.**

The problem with taking the cash, is that not only do you give up all your retirement savings up to that point and the possibility of participating in the magic of compound growth, but a large portion of it may go to the taxman.

A much better idea is to save (what is also known as preserve) your withdrawal benefit from your retirement fund.

One good way of doing this is to preserve the benefit by transferring it to another approved retirement or preservation fund. A preservation fund is a specially designed pension or provident fund with its own board of trustees. It is not an individually owned investment and is usually run by an assurance or investment company.

### How does a preservation fund work?

When you resign or are retrenched, your full withdrawal benefit (the money from your retirement fund) can be transferred directly to the preservation fund. In this way, you are safe-guarding your financial well-being after retirement by ensuring that your retirement savings remain intact and will continue to grow. When you retire, you will receive a retirement benefit from the preservation fund.

Advantages of transferring your benefit to a preservation fund:

- It is usually more tax-effective, and could even be tax-free. You only pay tax on your benefit when it is paid out at retirement.
- Subject to certain terms and conditions, you may make one withdrawal from the preservation fund before you actually retire, so you can have access to your savings if you need it in case of an emergency. A portion of this withdrawal is tax-free.

Do not underestimate the importance of preserving your retirement fund savings when changing jobs – even if you are young. Many South Africans will not retire with enough money to allow them to maintain

the same quality of living after retirement as they had when they were working. And one of the main reasons for this is that they do not preserve their retirement benefit when they change jobs. Don't be one of them! Saving for retirement is a long-term investment – the sooner you start, the more money you will have!





### HELPFUL HINT:

**Before you invest in a preservation vehicle, find out what costs, if any, are involved when you transfer your benefit. Make sure that these costs will not substantially affect your retirement savings. Talk to your financial adviser so that you make the best decision for your circumstances.**

# Become a contented organiser - get to know your savings vehicles and start planning!

**The average retirement fund will not deliver sufficient capital to maintain living standards after retirement. How else can you save to build up your retirement savings?**

Consider acquiring growth assets, preferably in a balanced fund with exposure to a combination of equity, fixed-interest and property assets. Equities and property offer the most consistent real returns over periods spanning 20 years and longer. Have a look at the following table to get an overview of the asset classes available in a typical balanced fund and how they differ in terms of expected growth and risk:

Least growth, least risk	←————→		Most growth, most risk
			
<p><b>Cash</b></p> <p>For example, a fixed deposit account at a bank. Often used as a temporary place to keep money that will be invested elsewhere later.</p>	<p><b>Fixed-interest investments</b></p> <p>Certificates/bonds issued by government or big companies, e.g. Eskom, to raise capital. The bondholder in effect lends money to government/the company, which must be repaid by a certain date and at a predetermined interest rate. A bond can be bought or sold.</p>	<p><b>Property</b></p> <p>Can be either a direct investment in property (real estate) or the purchase of property trusts on the JSE (such as unit trusts which invest in properties).</p>	<p><b>Shares (equities)</b></p> <p>Shares listed on the JSE, e.g. in the mining, industrial and financial sectors.</p> <p>An investment in shares grows in two ways: shareholders receive a dividend when the business makes a profit, and if share values increase, shares can be sold at a higher price.</p>

## Investments - how to get started

1. Consult with an accredited financial adviser.
2. Ask him/her to conduct a full financial needs analysis.
3. Agree on investment objectives, goals and time frames.
4. Consider all the various tax implications relevant to your personal circumstances.
5. Prioritise your financial needs and objectives.
6. Agree on suitable financial solutions.
7. Implement and commit to the plan.
8. Insist on an annual review as personal circumstances change.

### MAILSENSE

We appreciate hearing from you! Please keep sending us your comments at the following address:

#### RANDS&SENSE

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### WIN! WIN! WIN!

Answer one easy question and stand to win a prize!

**Question: Is the following statement (which can be found and verified elsewhere in this newsletter) TRUE or FALSE? "You only pay tax on your (preservation) benefit when it is paid out at retirement."**

Simply send us your answer, together with your name and contact number, by 31 January 2012. Winners will be contacted.

Congratulations to our previous winners, Yvette Willie (Commercial Cold Storage) and Romeo Sgwane (Nedbank).