



Nedbank Financial Fitness Booklet

# FINANCIAL KNOW-HOW IS POWER

see money differently

**NEDBANK**

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# 1 INTRODUCTION TO FINANCIAL FITNESS

By the end of this unit you should:

- be able to define and understand the various aspects of financial fitness;
- understand the importance of creating a financial plan;
- understand the importance of having a healthy relationship with money; and
- understand money relationships and money archetypes.

## 1.1 INTRODUCTION TO FINANCIAL FITNESS

**'Education is the most powerful weapon you can use to change the world.'**

These are the wise words that Nelson Mandela spoke to inspire education at all levels. Financial fitness is not something we are born with – it is something that can be learnt.

The negative global developments continue to influence the rise in inflation and food and petrol prices. The current economic conditions are good indicators that financial management is a skill required to stretch limited resources. Many people across all income brackets find themselves battling with financial challenges that can lead to financial distress, which can in turn lead to poor work performance, absenteeism and illness, as well as contribute to family problems.

Financially savvy people not only tend to have a more positive outlook on life and are likely to perform better at work and live healthy lifestyles, but they are also more open to wealth creation strategies. This booklet provides guidance that will lead to financial fitness and wealth. To achieve these it takes a willingness to learn and the application of the strategies available in this booklet and elsewhere.

## 1.2 DEFINITION OF FINANCIAL FITNESS

Financial fitness is the ability to use a combination of skills, knowledge and resources to make good financial decisions. These decisions include informed choices on how to manage money, banking, investments, assets, credit and insurance. It takes time, effort, patience, discipline and determination to achieve financial freedom and wealth.

## 1.3 FINANCIAL FITNESS COMPONENTS

There are four important financial components that will contribute to financial freedom and wealth creation:

- Financial vision and goal-setting
- Budgeting
- Credit management
- Money relationships

## 1.3.1 FINANCIAL VISION AND GOAL-SETTING

Having a financial plan will help with focusing on achieving set goals. The process starts with vision.

Vision is about a preferred future filled with success and planning towards it. Vision leads to an action plan, which involves setting goals. Doing this effectively requires having goals that are clearly defined and SMART.

### SMART GOALS MUST BE:

#### Specific

The goals must focus on identifiable areas.

#### Measurable

The goals must be able to be measured so that you can track your progress.

#### Achievable

The goals must be within your reach so that you do not get discouraged along the way.

#### Realistic

The goals should be relevant and aligned with your financial vision so that you can move in the right direction.

#### Timely

Open-ended goals that have no timeframe are more difficult to achieve.

### SMART GOALS SHOULD BE SPLIT INTO:

#### Short-term goals

These goals can be achieved within six months. The savings can be used for pleasures such as holidays.

#### Medium-term goals

These goals can be achieved in two to five years. The savings can be used to purchase big items such as a car or furniture.

#### Long-term goals

These are achieved over a period exceeding five years. The savings can be used towards retirement goals, for example.

Breaking down goals this way means you can celebrate when you achieve your short-term goals, which will help you stay motivated to achieve longer-term goals.

## GOAL-SETTING RULES

### Goals must motivate.

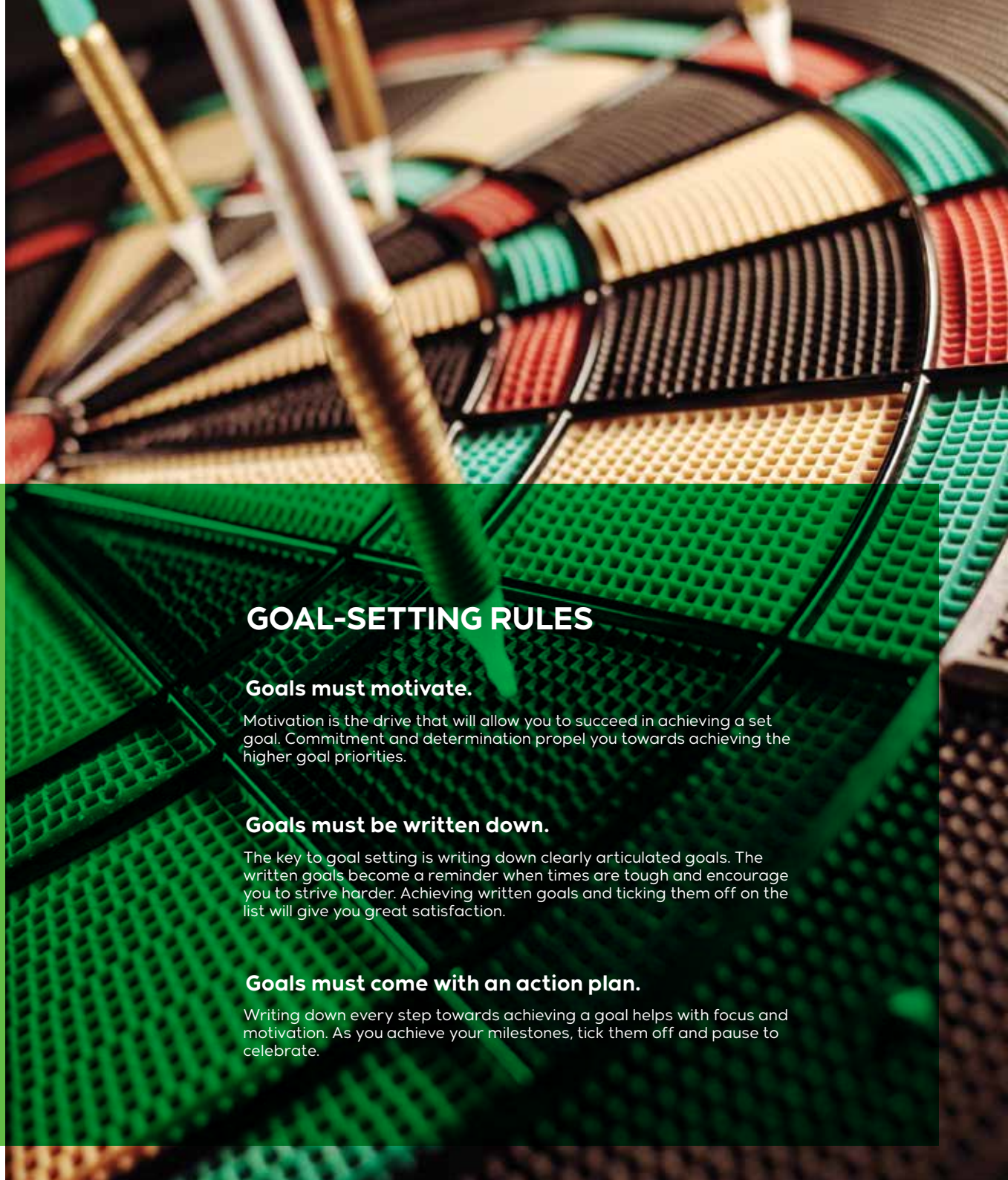
Motivation is the drive that will allow you to succeed in achieving a set goal. Commitment and determination propel you towards achieving the higher goal priorities.

### Goals must be written down.

The key to goal setting is writing down clearly articulated goals. The written goals become a reminder when times are tough and encourage you to strive harder. Achieving written goals and ticking them off on the list will give you great satisfaction.

### Goals must come with an action plan.

Writing down every step towards achieving a goal helps with focus and motivation. As you achieve your milestones, tick them off and pause to celebrate.



## 1.3.2 BUDGETING

A budget is a written plan that shows how much money is earned and how it will be spent. It is a plan that helps manage paying for unlimited needs with limited resources. The budget will indicate whether your expenses exceed your income or are within your means. The disadvantage of not writing down a budget is that one can live beyond their means – a recipe for getting into debt.

### BUDGETING NUGGETS

- Write down all your expenses. These include variable, fixed and unforeseeable expenses. Prioritise your fixed items, followed by variable expenses.
- Use the budget plan to craft a debt exit plan. List all your debts (including the interest rate charged), outstanding balance and monthly instalment. Pay off the smallest debt first.
- Use the budget to kickstart your savings and investment plan, by allocating a fixed amount towards an emergency fund and creating wealth.
- Always draw up a shopping list to avoid making spontaneous purchases.
- Stick to the budget. Do not succumb to gratifying wants over needs. Understand the triggers that lead to overspending and avoid them.
- Keep expenses low even when your income rises. That way you can save and invest the extra cash.
- Always look for ways of reducing spending by scrutinising every expense. Where possible reduce your spending by at least 10% over a three-to-five-month period. Allocate those savings to wealth creation strategies.

## 1.3.3 CREDIT

Credit is an arrangement that allows someone to buy something now and pay for it later. It therefore involves a relationship of trust between the borrower and lender. These two parties enter into a

contract that clearly spells out the terms and conditions of the credit agreement, including the term, interest rate and monthly repayment amount. A credit agreement is a legal document.

### CREDIT SCORE DETAILS

Credit scores are used by lenders to determine whether to approve or decline applications. The scoring system below was developed by Nedbank's analytics team as a guide.



An excellent credit score means low risk in the eyes of most lenders.

### CREDIT APPLICATION CRITERIA

An exceptional credit score is one greater than 800 and a poor credit score below 300.

**HOW TO CALCULATE YOUR DEBT RATIO**

Your debt ratio =  $\frac{\text{Monthly debt repayment}}{\text{Monthly salary before tax}} \times 100$

What your debt ratio means:

|                    |                   |                        |                       |                     |
|--------------------|-------------------|------------------------|-----------------------|---------------------|
| Under 20%<br>Great | 20% - 36%<br>Okay | 37% - 43%<br>Debt risk | 44% - 63%<br>Speak up | 64% +<br>Be careful |
|--------------------|-------------------|------------------------|-----------------------|---------------------|

Any person with a stable income can apply for credit. A person's credit approval is determined by their credit risk profile, which depends on a range of factors, including:

- Employment
- Income level
- Debt ratio
- Credit history
- Affordability

The credit provider will look at the credit record of the applicant, which sheds light on whether the applicant pays their accounts on time and regularly and is not overindebted. This information is sourced from the credit bureau. Credit bureaus are independent agencies that compile and distribute credit information to creditors. This information includes payment habits, number of credit accounts, balances on accounts and length and place of employment.

## CATEGORIES OF CREDIT AGREEMENTS

The National Credit Act, 34 of 2005, distinguishes between small, intermedium and large credit agreements. Small agreements have a limit of R15 000, intermedium agreements are between R15 000 and R250 000, and large agreements are above R250 000.

An example of a small credit agreement is a pawn transaction and one of a large credit agreement is a home loan. Below are short descriptions of various kinds of credit agreements.

**A home loan** is a loan for purchasing a residential home or building a new property. This property is considered an asset or investment as its value appreciates. Home loans are regarded as secured lending.

**The Finance Linked Individual Subsidy Programme (FLISP)** was developed by the Department of Human Settlements to enable sustainable and affordable first-time homeownership opportunities to South African citizens and legal permanent residents earning between R3 501 and R22 000 per month (the 'affordable' or 'gap' market). Individuals in these salary bands generally find it hard to qualify for housing finance; their income is regarded as too low for mortgage finance but too high to qualify for government-subsidised housing.

Contact [flisp@nedbank.co.za](mailto:flisp@nedbank.co.za) for more information.

## INSTALMENT AGREEMENT

In an instalment agreement a bank purchases goods and the client, while being able to use the goods immediately, undertakes to pay the bank in full on agreed terms. It is a financial facility for moveable, durable goods. The total repayment consists of the full value of the goods, interest and bank charges. The bank owns the goods until it has received all amounts due by the client, at which point ownership automatically transfers to the client.

Vehicle finance falls under this category. Payment options for this type of agreement include fixed instalments or instalments with a balloon payment. The interest rate charged is based on a client's risk score. No security is required for this type of loan. (Security is property the client has that may be taken by the bank to cover the debt if a client fails to pay that debt.)

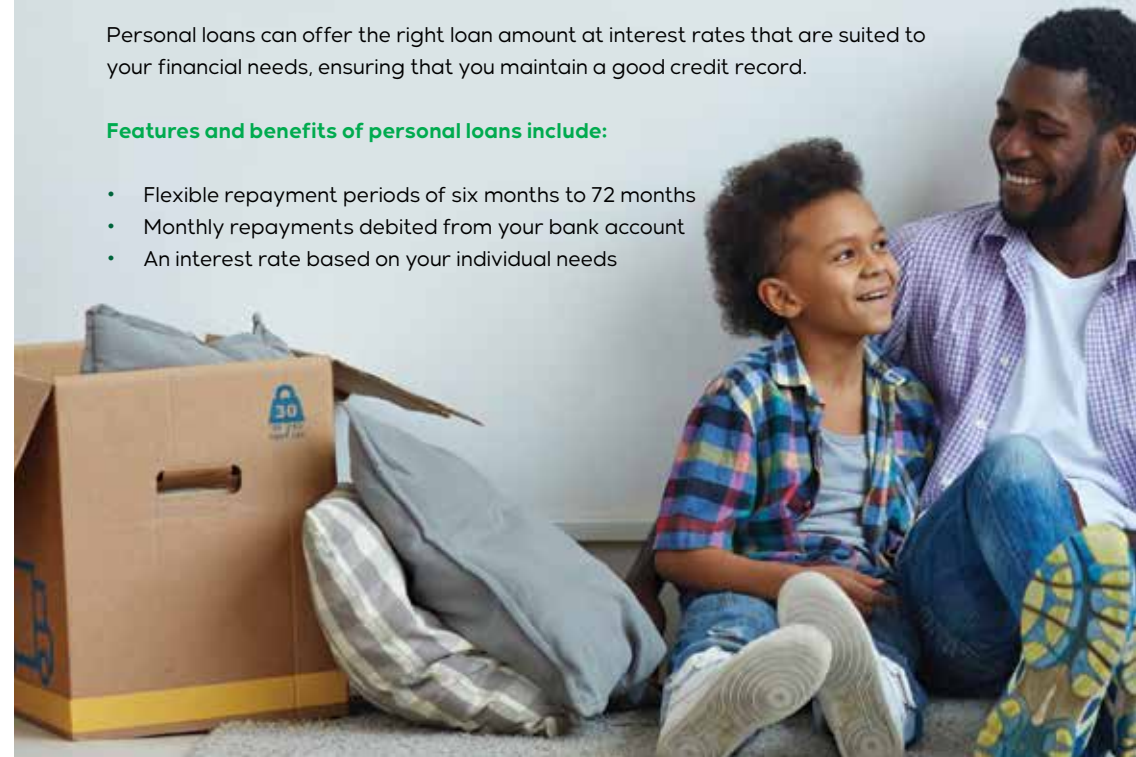
## UNSECURED LENDING

A personal loan is an easier way of getting finance to take care of your personal needs. You can use this money to pay for an unexpected medical bill, home repairs or improvements, your education, a second-hand car or even to consolidate multiple loans into one, more affordable account.

Personal loans can offer the right loan amount at interest rates that are suited to your financial needs, ensuring that you maintain a good credit record.

### Features and benefits of personal loans include:

- Flexible repayment periods of six months to 72 months
- Monthly repayments debited from your bank account
- An interest rate based on your individual needs



### Home loan nuggets

Budget for initiation, transfer and bond registration fees.

Budget for rates and taxes, water and electricity. If you are buying a sectional-title unit or townhouse in a complex, levies will also need to be paid.

Budget for insurance premiums that cover the building structure if you are buying a free-standing home. For sectional titles this will be covered by your levy.

## CONSUMER RIGHTS WHEN APPLYING FOR CREDIT

- **Protection against discrimination** in respect of credit.
- Right to **reasons credit has been declined.**
- Right to information in **an official language.**
- Right to information in **plain and understandable** languages.
- Right to **receive documents.**
- **Protection of credit rights.**

## DEBT REVIEW PROCESS

If you are overindebted and unable to meet your financial obligations under your credit agreements, you can approach a debt counsellor to assist you through a debt review. You are overindebted if your total monthly debt payments are higher than what is left over after deducting essential expenses from net income.

Debt review is a voluntary process in which you approach a debt counsellor to apply on your behalf for formal debt review. This process is done through the magistrate's court or a tribunal and involves the rearrangement of financial debt obligations.

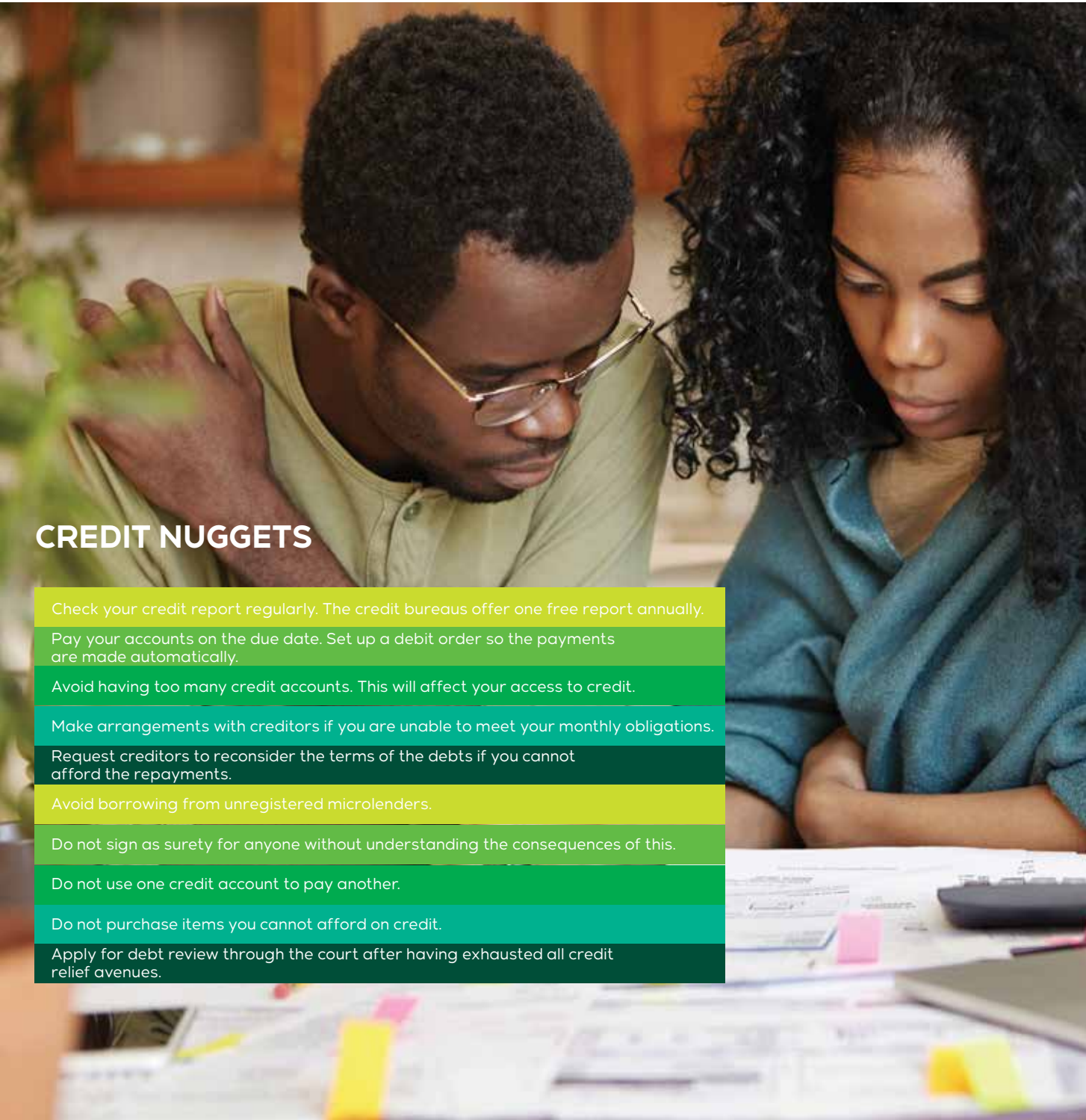
## CONSEQUENCES OF BEING PLACED UNDER DEBT REVIEW

- You will be listed at all registered credit bureaus as being under debt review.
- You will not be allowed to incur any new debt.
- You will need to follow the orders made by the magistrate's court or tribunal regarding your restructured repayments.
- Creditors cannot enforce all credit agreements by taking legal action against you before 60 days have passed.

## WHEN YOU CAN EXIT THE DEBT REVIEW PROCESS

You will be released from the debt review process only once the magistrate's court has issued a clearance certificate or you can exit the process once you have paid off all the debts that were listed in the debt review court order.

**Please note:** The debt counsellor does not have the statutory power to withdraw or terminate the debt review process – only the magistrate's court can do so under certain terms and conditions.



## CREDIT NUGGETS

Check your credit report regularly. The credit bureaus offer one free report annually.

Pay your accounts on the due date. Set up a debit order so the payments are made automatically.

Avoid having too many credit accounts. This will affect your access to credit.

Make arrangements with creditors if you are unable to meet your monthly obligations.

Request creditors to reconsider the terms of the debts if you cannot afford the repayments.

Avoid borrowing from unregistered microlenders.

Do not sign as surety for anyone without understanding the consequences of this.

Do not use one credit account to pay another.

Do not purchase items you cannot afford on credit.

Apply for debt review through the court after having exhausted all credit relief avenues.

### 1.3.4 THE POWER OF MONEY RELATIONSHIPS

Our money beliefs are shaped by the way we have been socialised from an early age. The money stories we have heard, whether myth or truth, influence how we relate to money.

Nedbank has embarked on a journey to encourage people to start talking about money through a movie called Secrets. Hopefully, the discussion will lead to financial wellness and growth.

Nedbank partnered with a psychologist to develop money archetypes. We are hoping that these archetypes will help you understand the emotions that drive your money choices so that you can develop more positive habits that will lead to better financial decisions. Nedbank offers several products geared to inspire good money behaviours and help you start a positive wealth creation journey.

As money experts who do good, we believe that money well managed makes a real difference in people's lives.

To discover your money archetype take a short quiz at [www.nedbankmoneysecrets.co.za](http://www.nedbankmoneysecrets.co.za).

Below are brief descriptions of the different money archetypes.



**Light:** You are a magnetic and charismatic leader, love to spend on luxuries or financial support for others and have the potential to do good for the community.

**Dark:** You expect something in return. You may feel you own people, resulting in unhealthy or even abusive relationships, and may neglect to save for the future.

**Emotional blind spots:** Over-the-top spending is a way to ensure love, respect and status.

**Money blind spots:** You do not always focus on saving, placing yourself at financial risk.

**Positive Money Secret:** Prioritise what you spend on. A financial plan or budget will help you save towards long-term financial security or building a legacy in communities.



**Light:** You are successful, self-made and like to be the centre of attention, arriving in style. You also love luxury items and are 'famous' in the community.

**Dark:** You have the potential to live beyond your means, chasing empty praises from people and failing to channel wealth in securing a future and building a legacy.

**Emotional blind spots:** You may have grown up without money, so emotional scars lead to a compulsion to reaffirm your achievements.

**Money blind spots:** Your need for instant gratification means you have no long-term plans in place, and so may go into debt.

**Positive Money Secret:** Use wealth for good as a healthier way to get the validation you seek. Savings and investments are key to paying off debt.



**Light:** You are successful and self-made, with roots in poverty. An honest pillar of society who supports immediate family and community, you espouse the ideals of ubuntu.

**Dark:** You step in to help even if you do not have the means. You put the needs of others above your own and your family's, and may even incur personal debt to help.

**Emotional blind spots:** You have guilt for having money when others do not. You feel you need to rescue everyone, which could create dependency among others.

**Money blind spots:** You are neglecting building your own financial legacy, instead focusing on helping others. You may even borrow from 'mashonisas' to help, leading to debt.

**Positive Money Secret:** Create a new plan for building wealth while assisting others. Scenario planning is a good idea. Ask the 'what if' questions.



**Light:** You are an expert saver who is seldom prone to debt. You have a financial plan for the future and are always prepared for the worst. You are also financially savvy, stable, reliable and a great provider.

**Dark:** The money you have is often not enough and you may become a workaholic. You find it difficult to spend money and may be missing out on life. You are frugal, alienating loved ones.

**Emotional blind spots:** You may miss out on experiencing life because you are risk-averse. You could have lost money or grew up in extreme poverty.

**Money blind spots:** You have triggers in your life that bring about fear around money. You may need professional help if the fear is deep-seated.

**Positive Money Secret:** Create a budget plan to help achieve the things you have always wanted without feeling you are wasting.



**Light:** You are great at making numbers work and have potential to make a lot of money. You are also a courageous dealmaker who can manage complicated financial transactions.

**Dark:** You are erratic with money and have the potential to lose it all, and may be prone to depression after losses. You are unreliable in making regular payments.

**Emotional blind spots:** Winning big becomes a drug, spurring you to become more daring. When you lose, you take crazier risks in search of the next big win.

**Money blind spots:** You may lose everything through one unfortunate event. Your behaviour makes you unreliable.

**Positive Money Secret:** Identify the things that trigger your risky behaviour and set some boundaries. Setting debit orders can also help, or seek help from a professional.



**Light:** You are a highly creative, out-of-the-box idea generator with the potential to become a powerful catalyst for change. You are not driven by money but you are appreciative of it. You also inspire others.

**Dark:** You resist monetising your ideas because you believe having money might make you a bad person. You are too trusting of others and can be unrealistic and impractical about money.

**Emotional blind spots:** You have deep-seated beliefs that money makes you a bad person. You resist making money, thereby allowing others to swoop in and turn your business ideas into money.

**Money blind spots:** You focus on the outcome of your idea and lose track on how to make money from them. You may fail to assign value to your idea.

**Positive Money Secret:** Money helps realise your ideas. Personal financial prosperity can be your most powerful tool in making the world a better place.



**Light:** You are a great saver, are very money-savvy and able to wrangle numbers into submission. You are also financially responsible, independent and always prepared for the worst.

**Dark:** You are very secretive and do not trust anyone. You always expect the worst and lack generosity. Your mistrust will prevent you from making good investments.

**Emotional blind spots:** Your secretiveness and mistrust of others may keep you from developing truly meaningful relationships.

**Money blind spots:** You mistrust financial institutions and choose to keep your money under beds, floorboards or rose bushes. You believe the responsibility of your wealth rests entirely on your shoulders.

**Positive Money Secret:** Reassess your behaviour around money. Consider diversifying your portfolio and invest in secure wealth creation products.



**Light:** You are great at creating powerful connections within social circles, able to inspire people towards their vision for the world and are baffled by people's obsession with money.

**Dark:** You are overly trusting and lack financial awareness. You can become easy prey for unscrupulous people in your social circles. You also lack financial accountability.

**Emotional blind spots:** Your disinterest in money comes from never having been in control of money and not understanding how it works. Your lack of confidence makes it harder for you to be in charge of your financial destiny.

**Money blind spots:** Leaving the money 'stuff' to someone else could cost you more than you can afford to lose. Your power lies in your taking control of and knowing what is happening with your money.

**Positive Money Secret:** Education on basic money management principles such as budgeting will help enhance your understanding of money matters. You can also engage a financial advisor for assistance.

Nedbank has a range of products geared towards fostering good money behaviours. We believe that money well managed makes a real difference in people's lives.

## 2 LIFE STAGES

By the end of this unit you should:

- understand different life stages; and
- identify and plan for your life stage.

### 2.1 WHAT IS A LIFE STAGE?

From the day we are born to the end of our lives, most people follow similar cycles of being born, becoming educated, working and finally retiring. Each of the life stages comes with its own set of changes and challenges. Therefore, each life stage comes with its own unique financial needs as well. Nedbank takes these needs into account when developing products.

### 2.2 CHILDREN AND TEENAGERS

Although it is only in extremely unusual circumstances that children younger than 16 years earn their own money, many get income in a variety of forms, including pocket money, birthday gifts and so on. Learning to be financially savvy from an early age will stand them in good stead for their adult lives. They generally do not need to worry about credit, bills or salaries. For individuals in this stage of life, a low-fee or zero-fee savings account is a great way to become exposed to banking while reaping the benefits of competitive interest rates.

**Tip: Budgeting is recommended at this early age.**

### 2.3 STUDENTS

Young people who are embarking on a tertiary education – whether at university, college, technikon or other smaller educational institution – have unique financial needs. They may not be able to earn an income while studying, but they still need a consistent cashflow to pay for classes, books, accommodation and more. They will need a transactional account that does not charge them high fees, or one with no fees, in addition to student loans. It is important that they adopt a culture of saving and investing as they prepare to transition into adulthood and the world of work.

**Tip: Budgeting, goal-setting and credit management education are critical at this stage.**

## 2.4 YOUNG ADULTS (SINGLE, STARTING OUT)

Fresh out of school or university, these young people are starting their first jobs and enjoying life to the fullest by spending most of their money on social activities, travel and possibly purchasing their first car. During this this stage it is crucial to remain financially savvy to ensure future financial fitness. Single adults starting out need a reliable portfolio of products that will help them create wealth.

This portfolio should accommodate their goals, budget and credit management priorities and include:

- Transactional account
- Savings and investments
- Life insurance
- Retirement planning
- Credit products
- Will
- Unit trusts and shares
- Medical aid or hospital plan

## 2.5 SINGLE AND ESTABLISHED

In this life stage the individual is financially established and has been working for a while. They are probably thinking of getting married, starting a business, acquiring assets like a car or home loan or traveling overseas.

Their ideal portfolio should accommodate their **budget** as a base as well as **credit management** priorities, **vision** and **goal-setting**, and include:

- Investments and savings
- Retirement planning
- Life insurance
- Funeral plan
- Wealth protection
- Transactional products
- Credit products
- Unit trusts and shares
- Will

## 2.6 MARRIED WITH A FAMILY

In this life stage people are already established, in a committed relationship, might have children and are financially established. Their financial needs may include planning for their children's education, managing personal finances tightly because of increased responsibilities and looking to purchase a home and a car.

Their portfolio should accommodate their budget and credit management priorities as a base and include:

- Savings and investments
- Transactional accounts
- Education policies
- Retirement planning
- Life insurance
- Will
- Medical aid or hospital plan
- Unit trusts and shares
- Home loans and vehicle finance
- Financial planning

## 2.7 RETIREMENT

Retirement without proper planning can be a daunting prospect. At this life stage the individual should be looking forward to enjoying the fruits of decades of work. However, if insufficient planning was done, this stage can be fraught. Preparation for this life stage should include paying off all debt like car and home loans, as well as credit cards.

Budgeting and reassessing their portfolios is critical, and their portfolios should include:

- Estate planning
- Diversification of investment portfolio
- Wills or trusts
- Medical aid
- Additional pension options

# 3 BUILDING BLOCKS OF WEALTH CREATION

By the end of this unit you should:

- be able to use various investment options to create wealth for yourself; and
- understand how unit trusts, shares and property can be used in wealth creation strategies.

As we go through different life stages, it is important to know that there are banking products that are designed to meet those shifting needs. Choosing the right products for your life stage can help you maximise the benefits you receive from your bank without paying exorbitant fees.

Selecting the right combination of transactional, savings and investment products can help ensure that all your financial needs for whichever your life stage you are in are being met adequately.

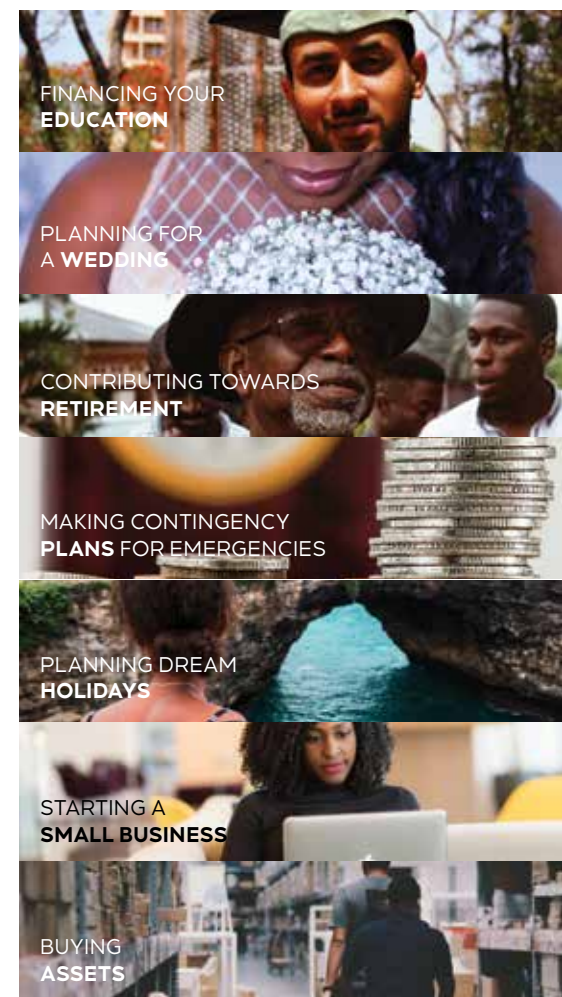
## 3.1 SAVING

Saving is the best option to take as a starting point towards achieving personal financial goals and wealth creation. The Global Competitive Report states that in 2010/2011 only 16% of South Africans were contributing towards savings. By June 2011 the number of savers had increased only to 16,3%. The month of July has been declared National Savings Month to encourage South Africans to save. Unless there are clear, measurable and achievable savings goals set, this situation will remain the same.

Savings should form part of the budgeting process, where an amount is set aside monthly towards financial goals. An automatic monthly debit order helps in saving consistently.

There are various types of savings accounts, including the Nedbank Tax-free Savings Account. The benefit of this type of savings account is that the money you grow is not taxed. The maximum you can save tax-free is R33 000 per year.

The following are good reasons for saving:



## 3.2 GROUP SAVINGS (STOKVELS)

Group savings is a powerful way of creating wealth. The National Stokvel Association of South Africa says there are more than 800 000 stokvel groups, with an estimated R49 billion invested in the South African economy.

A stokvel can have as few as three members and as many as 500, with 27 members being the average – all saving together for a common purpose. The stokvels are characterised by the savings goals for which they are created and include burial, groceries, investment and property stokvels. The group determines its own rules and membership criteria, which are binding on all members.

### Benefits of belonging to a stokvel include:

- Disciplined saving
- Higher interest rates on large deposits
- Group support and motivation
- Achieving personal goals through group collaboration

## 3.3 TYPES OF STOKVEL

**Property stokvel:** These are investment stokvels for enabling home ownership or funding building material purchases.

**Saving/Investment stokvel:** These are used by groups that want to achieve savings or investment goals.

**Burial stokvel:** These provide much-needed financial assistance to members after the loss of a loved one.

**Grocery stokvel:** These save towards buying groceries in bulk, sharing them equally among all the members.

The Nedbank Stokvel Account offers great benefits that include burial cover for members, discounts on groceries and school supplies at partner stores, as well as zero monthly maintenance fees and great interest rates.

'Group savings is a powerful way of **creating wealth.**'



## 3.4 INVESTMENTS

Investing is when you buy a financial product with the expectation of receiving favourable return in the future. This means using your money to make more money. Investment accounts are usually for long-term saving, while savings accounts can be used for short-term savings.

There are various types of investment instrument that can be used for wealth creation. These include tax-free investment accounts, fixed deposits, money market accounts, shares, unit trusts and property. Each investment instrument has its benefits and disadvantages, of which the investor should be aware. Risk is one of the factors to consider before investing. Risk factors include uncertainty around return on investment and meeting financial goals, as well as possible losses due to market instability. Nedbank investment products are guaranteed, which means that you will never get less than what you originally invested. It is recommended that your investment portfolio be diversified into different classes of instruments to avoid losses as much as possible.

**Below are some of the Nedbank investment options available and some of their features.**

### 32-Day Notice Account

- Tiered interest rates: the higher the balance, the higher the interest rate.
- The option to have the interest earned paid out monthly or added to the balance (capitalised).
- Free monthly stop orders when using a Nedbank current or savings account.
- No monthly fees or commissions.
- Notice of 32 days required to make withdrawals.
- Minimum amount of R250 required to open investment.
- Can be opened and maintained through a digital profile.

### Electronic Fixed Deposit

- Investment periods ranging from one to 17 months.
- Available to clients who have a Nedbank digital banking profile.
- Preferential interest rates when opened and maintained using a Nedbank digital banking profile.
- Guaranteed capital and interest rate. (Interest rates offered are subject to confirmation when the funds are received by Nedbank.)
- No additional deposits allowed.
- Minimum amount of R1 000 required to open the investment account.

### Money Market Investment Account

- Minimum balance of R20 000 required to earn interest.
- Tiered interest rates: the higher the balance, the higher the interest rate.
- Interest calculated daily and capitalised monthly. (Interest rates offered are subject to confirmation when funds are received by Nedbank).
- Can be used to pay debit orders and stop orders.
- Access to withdrawals at Nedbank ATMs anytime and cash deposits at selected ATMs.
- Optional garage card for vehicle-finance-related expenses.
- Full access to Nedbank digital channels – online banking, telephone banking, self-service kiosk and Money app.
- Transaction charges levied according to the balance in the account and type and value of the transaction.

### MyPocket

- Competitive interest rates.
- Zero monthly maintenance fees.
- Linked to a Nedbank transactional account.
- Easy and instant access to funds through online banking, SMS Banking, self-service kiosks and Money app.
- No notice period required to access funds.
- Personalisation through ability to name each MyPocket.
- Up to 10 MyPocket linked to your transactional account.

## TAX-FREE INVESTMENTS

The advantage of using tax-free investments is that no tax is charged on the growth of your investment: no tax on dividends, capital gains or income. The maximum amount that can be invested is R33 000 per year; any amount above R33 000 will be taxed. The lifetime tax-free contribution limit per individual is R500 000. Disadvantages include the investment value dropping due to market fluctuations.

Nedbank fixed tax-free investments have competitive market-linked interest rates, zero monthly fees and commissions and guaranteed capital and interest rates. The minimum amount required to open the account is R1 000.

## UNIT TRUSTS

A unit trust is an investment product that pools funds from multiple investors. A fund manager manages the funds by purchasing a variety of holdings such as shares, bonds and money market instruments.

### Example of unit trust pooled investments Advantages of investing in unit trusts

- Five different investors each contribute R100 for a total trust fund amount of R500.
- R250 is used to purchase a Nedbank share, R100 is used to purchase government bonds and R100 is invested in the money market.
- At the end of the first year the total growth of all investments combined is R100.
- Therefore, R100 is the profit that will be split among the five investors.
- Investment diversification.
- Professionally managed by specialists.
- Flexibility of investing lump sums or monthly contributions.
- Transparency, as costs are set out clearly for ease of understanding.
- Regulated by the Financial Sector Conduct Authority (FSCA) with strict set rules.
- Easily accessible as funds can be withdrawn at any time.

The disadvantages include volatility of the market as the unit trusts are linked to the stock exchange. Each investor needs to decide whether they will invest in a low-, medium- or high-return unit trust, taking into consideration the risks associated with the choice made. A professional or specialist will be able to advise accordingly.

The life stage you are in determines the type of unit trust you can invest in: low risk, medium risk or aggressive.

## SHARES (EQUITIES)

Investing in equities for wealth creation means purchasing shares in a business, thereby becoming a part owner. As a part owner, you are eligible to receive dividends based on the number of shares you own in the event the company has made a profit. Opting to purchase more shares rather than receiving cash will help grow your portfolio and increase income.

The disadvantages of equities or shares is that they are volatile as share prices fluctuate over a short period. The advantages include long-term growth, inflation-beating returns and portfolio diversification.

## EFTS

Exchange-traded funds (ETFs) consist of a variety of local and international shares, bonds and/or commodities. ETFs give the investor exposure to different parts of the economy, local or international, and different asset classes in a single transaction.

Investing in bonds is another wealth creation strategy. Bonds are loans to government, government-like institutions or corporate companies. The investor provides the capital and in return will receive interest.

## LISTED PROPERTY

In this type of investment investors hold shares in a professionally managed property portfolio. The investors also receive income derived from rental income of the underlying properties. Like bonds, property prices are inversely related to changes in interest rates. When interest rates rise, the property price falls, and when interest rates fall, the property price rises.

The total return is made up of income plus capital gains (if any). Listed property shares can be highly volatile over shorter periods. Therefore, the investor needs to diversify their investment portfolio.

## BONDS

Investing in bonds is another wealth creation strategy. Bonds are loans to government, government-like institutions or corporate companies. The investor provides the capital and in return will receive interest.

The bond prices are inversely related to changes in interest rates: When interest rates rise, bond price fall, and when interest rates fall, bond prices rise.

The advantages of investing in bonds are that the income is predictable and they offer diversification and security.

**Below are the different building blocks (asset classes) of unit trusts and the risk associated with them.**

| Building block  | Components of return                               | Risk description  |
|-----------------|--|---|
| Cash            | Interest   | There is a very low risk of capital losses (financial institution would have to default). The highest risk is inflation.  |
| Bonds           | Income from interest coupon + capital gains/losses | There is a very low risk of capital losses (financial institution would have to default). Highest risk is inflation.  |
| Equity          | Dividends + capital gains/losses                   | Loans are longer term, so credit risk is higher than with money market instruments. There is also an interest rate risk as prices of bonds fluctuate with changes in market interest rates. |
| Listed property | Income + capital gains/losses                      | Listed property prices can be volatile over shorter time periods. Listed property prices also tend to fluctuate with changes in interest rates.   |

## 4 RETIREMENT PLANNING

By the end of this unit you should:

- understand the importance of early retirement planning;
- understand the differences between provident funds and pension funds; and
- understand the importance of wills and trusts as wealth protection strategies.

### 4.1 INTRODUCTION

Retirement planning is a critical component of financial wealth creation. A retirement savings plan should be viewed as a long-term investment goal. An Alexandra Forbes article on financial planning advises that one should start saving between 15% and 20% of monthly income towards retirement from age 20 to retire comfortably. Maximum contribution towards a pension or provident fund will ensure a comfortable retirement that will not require you to downgrade your lifestyle after retiring.

The FSB Financial Literacy Report of 2015 indicated that of the 2 940 interviewed South Africans, only 14% were confident that they had adequately prepared for retirement, 40% had no retirement plan and 46% were not confident of their plans. This means almost nine in 10 South Africans either had no retirement plans or were not confident of their retirement plans.

**A Nedgroup Investments article highlights the challenges of insufficient retirement planning. The article states that:**

$\frac{1}{10}$  people will be able to maintain their standard of living after retirement.

$\frac{8}{10}$  people worry about having enough money to retire.

$\frac{5}{10}$  people are uncertain of current retirement values.

$\frac{6}{10}$  people failed to save enough for retirement.

The above statistics are an indication of the challenges many will face on retirement, which should be a time of enjoyment and relaxation after years of service.



## 4.2 HOW DO I SAVE FOR RETIREMENT?

The answer is, the sooner the better. Contributing to a retirement annuity and your pension or provident fund from the day you start working will lead to a significantly better financial position on retirement. Below is a recommended formula for a successful retirement adopted from an article by Nedgroup Investments:

**Save enough + For long enough + Appropriate solution + Low costs + Stick to plan = Successful retirement**

## 4.3 WHAT IS A PENSION FUND AND PROVIDENT FUND?

A pension fund is established by an employer for the investment of an employee's retirement fund savings. Pension funds are governed by the Pension Fund Act, 24 of 1956, and the rules of the particular fund.

A pension fund is a retirement plan that requires an employer to make contributions into a pool of funds set aside for the employee's future benefit. The pool of funds is invested on the employee's behalf and the earnings on the investments generate income for the employee on retirement.

Pension funds pay out one-third of the total benefit when an employee retires as a lump sum, and the remaining two-thirds or the entire benefit (if no lump sum is taken) must be invested so that it pays out a pension for the rest of the fund member's life, depending on the annuity or investment purchased.

Provident funds pay out the full retirement value as a lump sum. The lump sum can be used to purchase an annuity that will pay out in the form of a pension over the rest of the fund member's life, also depending on the type of annuity purchased or chosen.

The provident fund arrangement might work better for lower-income earners who do not benefit from the tax deduction as their income is below the tax threshold, and it offers them more flexibility on retirement.

## 4.4 RETIREMENT ANNUITIES

A retirement annuity is an investment designed specifically for retirement. The money invested cannot be accessed before age 55.

There are two phases in retirement planning:

**Preretirement:** The investor makes monthly, yearly or lump sum contributions. On retirement a third of the investment is released.

**Postretirement:** The investor invests the remaining proceeds of the annuity into an interest-bearing account and receive monthly interest that will sustain them monthly.

## 4.5 ESTATE PLANNING

Estate planning entails the creation and maintenance of a financial plan that will take care of the financial obligations of the client in the event of death. These financial obligations include debts, expenses and taxes. Estate planning involves one or more of these elements:

- Will.
- Life insurance.
- Trusts.
- Medical directive, also known as a living will.

### WILL

A will or 'last will and testament' is a legal document setting your instructions and wishes as to how your property and assets are to be distributed after your death. You can also appoint a guardian to look after your children if they are underage and an executor to distribute your assets.

A valid will must be in writing (handwritten or typed), signed by you and witnessed by two people.

Other than the beneficiaries of property, a will can also indicate:

- The executor.
- The guardian in respect of minor children.
- Protection of benefits by way of a trust.
- The trustee.

The assets and property include everything you own, such as your home, land, vehicles, bank accounts, benefits of insurances policies, investments, boats, jewellery and artwork.

If you do not have a will, the following will apply:

- Your wishes will be ignored.
- The financial needs of loved ones may be neglected.
- Your assets might be sold.
- Your assets might be distributed according to a set formula (intestate succession).
- There will be delays in the winding up of your estate.
- There may be increased costs.

### TRUSTS

The main purpose of a trust is to protect and control the assets in the trust during your lifetime or after death. A trust can own property, receive donations and inherit money from your estate when you die. A trust can't be witnessed, but a trust deed can.

The trust deed contains the details of the arrangement of the trust. Assets are placed in the trust fund.

A trust can be set up as part of structuring your estate as detailed in your will. A trust has three components:

- The donor, who contributes property or assets into the trust.
- The trustee, who looks after and administers the trust.
- The beneficiaries, who receives the benefits of the trust.

#### There are two kinds of trusts:

**An 'inter vivos' (living) trust** – created while you are still alive. Examples of this type of trust are family, property and community trusts. A community trust is established for the administration of funds for the public benefit.

**A testamentary trust** – created by a will from the estate of the deceased person. It is also referred to as a will trust.

# 5 WEALTH PROTECTION

By the end of this unit you should:

- understand the importance of insurance; and
- understand the difference between short- and long-term insurance.

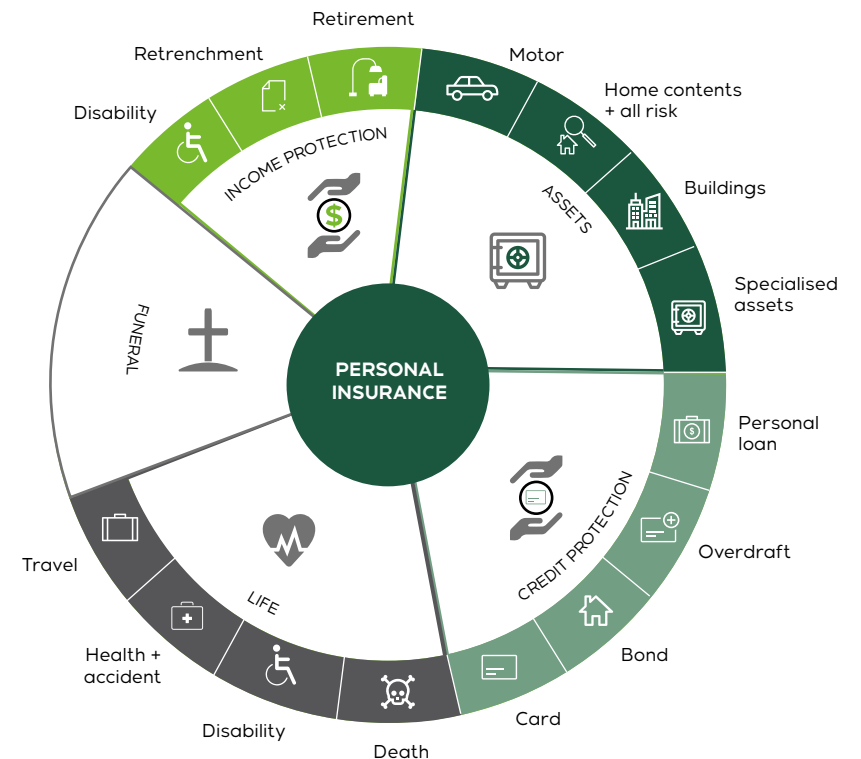
## 5.1 INTRODUCTION

Unexpected events, crises and disasters are facts of life and there is never a good time for them to happen. Whether it is a family issue, death of a loved one, a burst geyser or natural disaster, Nedgroup Life offers insurance products that can help you protect yourself, your family and your assets from the unforeseen.

## 5.2 DIFFERENCE BETWEEN SHORT- AND LONG-TERM INSURANCE

Short-term insurance products offer protection against mishaps and accidents and include products such as car insurance and personal-liability insurance. With this type of insurance, the insured party can rest easy that they will be compensated in the event of loss.

Long-term insurance products guarantee protection against loss, such as loss of life, and include products such as life cover and disability and health insurance.



### 5.2.1 INCOME PROTECTION

Income protection is an insurance policy that pays benefits to policyholders who are incapacitated and unable to work due to illness or an accident. It provides benefits on the following events:

**Disablement**      **Retrenchment**      **Retirement**

### 5.2.2 ASSETS PROTECTION

Asset protection is a type of insurance where an owner insures assets that are typically expensive to replace against accidents and other unexpected events that cause damage or destruction.

Whether you are liable or simply a victim of circumstance, having adequate cover means your assets are protected. Asset protection includes the following:

**Car insurance**      **Home contents cover**  
**Homeowner's/building cover**      **Value-added products**  
(tyre and rim, dents and scratches, etc)

### 5.2.3 CREDIT INSURANCE

This is an insurance product that allows you to ensure repayment of credit if you pass away, become ill or disabled, lose a job or face other circumstances that may prevent you from earning an income to service the debts. This is usually taken alongside credit-based products such as:

**Credit card**      **Personal loan**      **Home loan**      **Vehicle finance**

### 5.2.3 LIFE PROTECTION

Life insurance is insurance that for a monthly premium payment will provide a lump sum payment on your disablement (income protection), death (to your beneficiaries) or retirement. Typically, life insurance is chosen based on the needs and goals of the insured. Life insurance allows your family to have a certain degree of financial security should you pass away. Benefits are paid out on the following events:

**Disablement**      **Retrenchment**      **Retirement**



Financial fitness is the ability to use a combination of skills, knowledge and resources to make good financial decisions.

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