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GETTING YOUR FINANCIAL PLAN BACK ON TRACK IN 2011

The global recession has extended deeper and longer than many expected and many cash-strapped South Africans have deviated from their financial plans over the last year. This includes stopping or reducing their life insurance, short term or disability cover premiums.

According to Gerhard Joubert, Head of Group Marketing & Stakeholder Relations at PPS, the specialist financial services provider to the graduate professional market, as people head into 2011 it is crucial that they spend some time over the festive season getting their financial affairs back on track.

“South Africans have certainly felt the pinch of a tough financial situation and many have unfortunately cut back on the most important things such as life and disability cover, as well as contributions to retirement funds. However, by doing so they are putting themselves and their families at severe financial risk,” says Joubert.

He says the situation has been exacerbated by the fact that significant cuts in interest rates over the last two years means that the lump sum paid out by life insurance policies on death will earn just half of the interest that would have been generated a few years ago. “This means it is substantially more difficult for those left behind to live off the interest portion of this lump sum payout.

“For example, R1m of cover when interest rates were at 15% would have given a gross monthly income of R12 500. At an interest rate of 7% this will now only provide R5 833 per month. It is therefore vital that people take the time to review their financial plans, which may have been made in a high interest rate environment which is no longer applicable,” says Joubert.

He says the situation could have a devastating impact on thousands of families, if they do not take appropriate action now.

Joubert says a recent study conducted on behalf of the Association for Savings and Investment South Africa (ASISA) found that South Africa’s income earners are underinsured by a total of R18.4-trillion. “For those who are underinsured for death and disability, it will be impossible for families of these individuals to maintain the same standard of living if something were to happen to the main breadwinner.

“When it comes to saving for retirement, stopping or reducing contributions, even for a relatively short period can have a massive impact on the final values at retirement, due the power of compound interest”, confirms Joubert.

”However, if you have reduced or stopped contributing to a retirement annuity or pension fund, it is important to ensure you resume these contributions and if possible make up for the shortfall that has been created ,” says Joubert.

He concludes that consumers who are concerned about having deviated from their financial plans should speak to a financial advisor to help them get their financial commitments back on track.