# MONEY MATTERS

START THE JOURNEY TO FINANCIAL FREEDOM

FOR NICE THINGS

# NAVIGATING YOUR FINANCIAL


Thank you for embarking on this journey to “Financial Freedom” with us! They say that a journey of a thousand miles begins with a single step, so we’re excited to take this first step with you. Together we’ll unpack and explore basic financial principles that will help you achieve your financial freedom in the future.

# JOURNEY

# YOUR DESTINATION: FINANCIAL FREEDOM

**Complete financial freedom is when the income from your assets is greater than your expenses.**

This doesn't mean that your income is more than your expenses – it means the income generated by the assets you've accumulated will be sufficient to cover your expenses. When you've reached this point you'll have the freedom to choose whether you'd like to work or not because surviving financially isn't dependent on your salary anymore.

**What a fantastic position to be in!**

Reaching financial independence won't be easy, but it's possible and worthwhile for you as a **graduate professional.**

# YOUR TRAVEL COMPANION

Travelling with someone is better than going solo. Not only will you share amazing and funny moments and make memories that will last a lifetime but you'll also have someone to comfort you during challenging times and another set of skills at your disposal.

On your way to financial freedom your financial adviser will be the most important person travelling at your side. They have the knowledge, skill and experience to help you identify your goals, develop and implement your financial plan, guide you through challenges and can also provide advice in any given financial situation.

Therefore, a financial adviser not only gives you much-needed information when planning and overseeing your trip but is a companion on your journey.

Let's go!

## YOUR POINT OF DEPARTURE

When you enter your destination into a GPS the first thing it does is to establish your current location. In other words, before you can embark on a journey, you need to know where you are. For the sake of this workshop financial freedom is regarded as your destination so we need to determine your current relationship with money.

How you see and feel about money today was shaped by the way your parents/ caretakers raised you or by the opinions of prominent people or circumstances in your life.

- **What does money mean to you?**
- **What is your biggest fear regarding money?**
- **When you buy something how does that make you feel?**
- **How do you feel when you hear that you need to save?**

# YOUR DESTINATION

**While some people enjoy spending holidays by going to the beach others prefer nature reserves or taking to busy city streets.**

In the same way, your idea of what financial freedom looks like will be different from the person sitting next to you. You may be content with living in a typical neighbourhood and driving an average car, whereas they can't imagine life without expensive overseas holidays or owning the finest vehicles on the market.

- **What is your idea of financial freedom?**
- **What does being wealthy look like to you?**
- **Do you think that being wealthy will make you happy?**
- **How much money is "enough"?**

# AND GETTING THERE

# MY JOURNEY TO FINANCIAL FREEDOM

When you drive from Johannesburg to Cape Town you pass through a number of towns and, even though none of them are your final destination, you can think of them as “checkpoints” along the way.

On your path to financial freedom you will also encounter certain checkpoints that you will have to visit – we call these your life goals and your financial goals. Setting life and financial goals is not only about planning for future events (retirement planning for instance) but also to provide a sense of security in your everyday life, to inspire you to reach your dreams and aspire to be and do more.

- **What would you like to achieve financially two years from now?**
- **What about in five years?**
- **In ten years?**
- **If money wasn’t an issue – what do you dream of doing?**
  **You only have one year left to live, how will your goals change?**

# YOUR TRAVEL ITINERARY

**Knowing where you want to go doesn't necessarily mean that you know the best way to get there.**

A travel plan will include the destinations to be visited at specific times, a step-by-step guide to those destinations, nearby attractions, your accommodation and means of transportation.

In the same way, you'll never reach financial freedom or your other goals without having and following a detailed financial plan. A financial plan will not only help you to identify, set and achieve your financial goals but also will provide peace of mind that your financial affairs are in order.

- Do you have a **financial plan?**
- If not, do you know what a financial plan should **look like?**
- Do you **see the value** of having and following a financial plan?
- Would you commit to a financial plan if your **financial adviser** assists you?

# CONSIDER YOUR SPENDING

×××××××××××

**This might sound like a simple statement but some people adjust their lifestyles to parallel how much they earn.**

To illustrate this: when I receive a salary increase I immediately buy an expensive car, a bigger house or go on a fancy holiday overseas.

How much you spend should, however, never be determined by how much you earn.

By preparing a BUDGET you can plan realistically for your current needs while at the same time making provision for the future. The aim of budgeting will always be to take control of your money and progressively bring the “actual amount spent” on a category into line with the “monthly target amount”.



## METHOD

This exercise needs to be done monthly for an indefinite time (basically for the rest of your life).

1. Start collecting the receipts and slips from the first day of the month.
2. Calculate and record all the information on the last day of that month.
3. Determine what your MONTHLY TARGET AMOUNT should be at the beginning of the month for each of the categories.
4. Calculate and record your ACTUAL AMOUNT RECEIVED/SPENT for each of the categories at the end of the month.

××

## INCOME

1. Think about all the sources from which you earn money every month. This can be from your parents, bursary money that gets paid out to you, interest you receive on a savings account or remuneration you receive for working at a shop part time, etc.
2. Write the total monthly amount you expect to receive from each source in the MONTHLY TARGET AMOUNT column on the budget sheet.
3. At the end of the month complete the ACTUAL AMOUNT RECEIVED column by noting the income you received.
4. Calculate the difference between the MONTHLY TARGET AMOUNT and ACTUAL AMOUNT RECEIVED for each category and write it in the DIFFERENCE column.
5. This will help you to determine whether you received more income than you budgeted for or if your income was less than you hoped for.

# EXPENSES

1. Think about all your expenses every month and how much you think they are.
2. Adjust this amount to what you would like your MONTHLY TARGET AMOUNT to be. In other words the amount you wish to spend on each category.
3. Keep all the receipts if you paid cash for something or the slips when you swiped your card.
4. You can write on the back of each receipt/slip what the money was spent on. (This will be per the categories of EXPENSES on the budget sheet: transportation, technology, accommodation, entertainment, etc.)
5. If you don't want to keep all the slips (you must keep the receipts) you can print a bank statement at the end of the month. Each payment made from your bank account needs to be categorised in the same way as explained above.
6. Even if you do keep all the slips you'll still need to print a bank statement at the end of the month to make sure that all of your expenses are accounted for.
7. At the end of the month, you add up the total expenditure per category and record it in the ACTUAL AMOUNT SPENT column.
8. You can now calculate the difference between what your target was to spend and what you did spend.
9. This will help you to determine whether you went over your budget (you spent more than you planned on) or if you stayed within your budget (you spent less than or around what you figured).



# THE DIFFERENCE

Don't plan a radical change to eliminate the difference – the best way is to make slight changes over time. This will help you to gradually save more and spend less.

For example, if you spend R1 000 a month on groceries, but you'd really like to spend only R600 per month on this category, don't cut your budget for groceries by R400 in the first month. Rather, make it R100 less per month over the next four months.

# BUDGET SHEET

## INCOME

| CATEGORY / DESCRIPTION | MONTHLY TARGET AMOUNT | ACTUAL AMOUNT RECEIVED | DIFFERENCE |
|---|---|---|---|
| **FUNDS** | | | |
| • Contributions from Family | | | |
| • Salary / Part-time Job | | | |
| **BURSARY** | | | |
| • University study bursary | | | |
| • External Bursary | | | |
| **STUDENT LOAD** (BANK & NSFAS) | | | |
| **OTHER** | | | |
| **TOTAL INCOME** | | | |

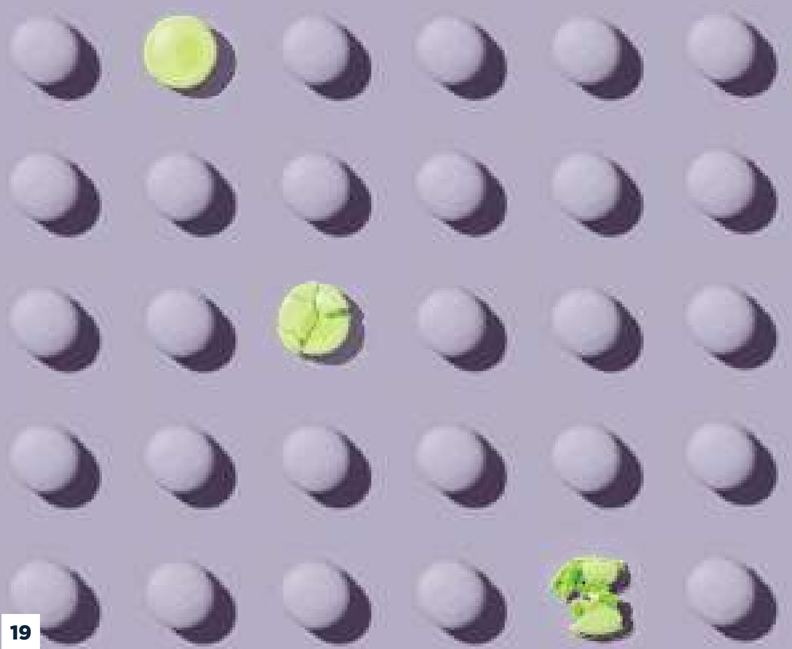


## EXPENSES

| EXPENSES | | | |
|---|---|---|---|
| CATEGORY / DESCRIPTION | MONTHLY TARGET AMOUNT | ACTUAL AMOUNT SPENT | DIFFERENCE |
| **UNIVERSITY** | | | |
| TUITION FEES | | | |
| TEXTBOOK | | | |
| **ACCOMMODATION** | | | |
| RENT/ RESIDENCE | | | |
| WATER/ ELECTRICITY | | | |
| GROCERIES | | | |
| LAUNDRY | | | |
| **FOOD & HOUSEHOLD EXPENSES** | | | |
| **TRANSPORTATION** | | | |
| CAR INSURANCE | | | |
| CAR PAYMENTS | | | |
| FUEL | | | |
| PUBLIC TRANSPORT | | | |
| **PERSONAL CARE** | | | |
| CLOTHING | | | |
| TOILETRIES | | | |
| BEAUTY TREATMENTS | | | |
| **TECHNOLOGY** | | | |
| CELLPHONE | | | |
| TABLETS / OTHER DEVICES | | | |
| INTERNET | | | |
| **HEALTHCARE** | | | |
| MEDICAL AID | | | |
| DENTAL | | | |
| GYM MEMBERSHIP | | | |
| **FINANCIAL** | | | |
| INSURANCE | | | |
| SAVINGS/INVESTMENTS | | | |
| DEBT REPAYMENT | | | |
| **SOCIAL ACTIVITY / ENTERTAINMENT** | | | |
| SPORT/ARTS/CULTURAL EVENTS | | | |
| HOBBIES /GIFTS | | | |
| ENTERTAINMENT | | | |
| **OTHER** | | | |
| **TOTAL EXPENSES** | | | |

# MANAGE YOUR DEBT

Becoming entangled in debt is probably the most dangerous place to find yourself in financially. Taking on debt always has a snowball effect, because not only do you need to repay the actual debt you also must pay the interest charged. You'll be in way over your head in no time, and most people usually seek debt counselling as a last resort.



**Categories of debt:**
It may sound contradictory to what we said above but not all types of debt are necessarily bad for you. There are such things as 'good debt' and 'neutral debt' as explained below.

### GOOD DEBT

When debt is used to build your assets it can be considered as 'good debt'. Take buying a house as an example: you purchase the house using a mortgage and pay your home loan instalment every month. Over time the outstanding amount will come down while the market value of your house will increase. When you decide to sell the house you'll make a profit.

### NEUTRAL DEBT

Most people in South Africa cannot afford to buy a vehicle with cash. They need to finance the deal using other means, usually leading to taking on debt. We can consider this to be a form of "neutral debt" if you repay the debt as fast as you can and buy a vehicle that falls within your range of affordability.

### BAD DEBT

Most debt is "bad debt" – this includes loans from loan sharks, payday loans, clothing accounts, short-term loans, furniture and appliance loans, and many more. The interest rate is usually very high and your debt levels will skyrocket before you know it. Breaking this cycle of being caught in bad debt is extremely difficult and will in most cases lead to financial destruction.

## WHY DO PEOPLE FALL INTO THE DEBT TRAP?

- **Overspending**
- **Undisciplined buying habits**
- **Materialism/greed/living an excessive lifestyle**
- **Mismanagement of money**
- **Loss of income/reduced income**
- **Unexpected expenses (e.g. medical expenses)**
- **Lack of insurance**

# BE FREE OF BAD DEBT!

Firstly, try at all costs to avoid debt that can spin out of control. If you are currently free of bad debt keep it that way by being disciplined in the way you plan to spend your money.

- **Make a budget and stick to it**
- **Pause and think before you spend**
- **Avoid temptation**
- **Start saving money**

Secondly, if you are already in debt it's not the end of the world if you start acting now. Ask your financial adviser to help you with a debt repayment plan (see the below "Debt Schedule"). You can organise your debt by listing those debts with the smallest balances to those with the largest balances. Pay off the smallest balances first and then use the money you would have paid towards that debt to repay another creditor. Settling your debts one by one will motivate you to keep at it.

You can also organise your debt by listing the items with the highest to the lowest interest rate. Concentrate on paying the debt with the highest interest rate first as this will save you the most money in interest over a period of time. Once you have repaid the debt with the highest interest rate you can then move on to the one with the second highest interest rate.



# DEBT SCHEDULE

## METHOD

This exercise should be done monthly to ensure that you keep up to date with your payments.

1. Identify all your creditors (people, shops, institutions, and so forth, that you owe money to).
2. Determine how much you owe to each of them, the minimum amount you should repay every month, the interest rate, as well as the repayment term.
3. By using the first method to tackle your debt (as described previously) organise your debt from the smallest balance to the largest balance.
4. Use this information to complete the below debt schedule.
5. The ACTUAL PAYMENT column should be used if you can pay more than the minimum monthly amount.
6. Concentrate on paying off the first creditor first then move on towards the second creditor.
7. The money you would have used to repay the first creditor should now also be paid to the second creditor.

| CREDITOR | OUTSTANDING AMOUNT | INTEREST RATE | REPAYMENT TERM | MINIMUM PAYMENT | ACTUAL PAYMENT |
|---|---|---|---|---|---|
| 1. | | | | | |
| 2. | | | | | |
| 3. | | | | | |
| 4. | | | | | |
| 5. | | | | | |

Thirdly, sometimes money will come from unexpected places: you might inherit money, get money for your birthday or receive money from some part-time work. Be sure to pay this excess cash towards your debt. You'll not only repay the outstanding debt quicker but you'll also save on the interest you would have paid in the long run.

# PLANNING FOR EMERGENCIES

Life happens. You might lose your job, there might be unforeseen expenses to cover, or a devastating event can deplete all your available funds. It's therefore important to build up a separate emergency fund. This money needs to be readily available in such cases and should not be used to pay for everyday expenses.

An emergency fund can best be described as a safety net in times of financial trouble.

## WHY IS HAVING AN EMERGENCY FUND IMPORTANT?

None of us can predict the future and your life might look radically different in 24 hours from now. Apart from the emotional stress and the confusion that emergency situations bring about, they also threaten your financial well-being. Having a separate emergency fund in place gives you the confidence and capability to ride out a short-term financial storm without falling into debt.

### WHAT SITUATIONS CONSTITUTE A REAL EMERGENCY?

**Losing your job**
Job loss is a life event that often happens unexpectedly and most people aren't prepared for the financial impact it'll have on their lives which can be devastating.

**Health emergencies**
Medical bills can quickly skyrocket and when your medical aid fund and insurance proceeds are depleted, you can use your emergency fund to settle these bills.

**Unexpected vehicle expenses**
Your insurance company might not cover all expenses incurred if you're in an accident or if your vehicle suddenly breaks down. Routine vehicle maintenance should not be considered as an emergency and must be included in your budget.

**Unexpected home repairs/ household content**
Extreme weather conditions or fire can damage the structure of your house or destroy your household contents. Depending on the nature and extent of the damage it may have to be repaired or replaced immediately.

**Other financial arrangements**
Family members living abroad might get sick, pass away or find themselves in a demanding situation. Making immediate travelling arrangements cost a lot of money – work hard so that your emergency fund is sufficient to cover you in cases like these.

**The following are not real emergencies:**

- **Paying for a holiday**
- **Buying expensive gifts**
- **Routine maintenance of your vehicle**
- **The chance to buy something costly that is 'on sale'**
- **Renewing your vehicle registration**
- **Paying taxes at the end of the financial year**

# WHAT YOUR EMERGENCY FUND LOOK LIKE?

**An emergency fund should be a separate fund.**
The account should be separate from other bank accounts that you use daily so that you can't be tempted into using your reserves for situations that are not considered emergencies.

**The money needs to be easy to access.**
Emergencies can strike at any moment and therefore fast access to your cash is crucial. There is no use in your money being tied up in an investment that you can only access after 30 days' notice.

**The money needs to be safe from market risk.**
Economic markets will always be turbulent. The best you can do is to choose the option with the lowest market risk because you want to know that your money is there when you need it.

**Look for an interest-bearing account.**
The point of an emergency fund is not to make money and you should make peace with the fact that you won't receive the highest possible return on your investment. However, you should select an account that pays interest on your savings.

Money market accounts are widely considered to be a good option for an emergency fund. It meets the above criteria and can easily be opened at any bank. Speak to your financial adviser or a banking consultant to help you choose the right account for your needs.

## HOW MUCH SHOULD YOU HAVE IN YOUR EMERGENCY FUND?

Most experts agree that you should have at least 3 – 6 months' worth of living expenses in your fund. You can use your budget to determine how much this should be. Make sure that you include the following expenses: accommodation costs, transportation, groceries, healthcare, insurance premiums, personal expenses and debt repayments.

## HOW DO YOU BUILD YOUR EMERGENCY FUND?

You don't have to build an emergency fund overnight – it takes time. However, you need to start as soon as possible by saving as much as you can each month. Here are some steps to saving towards your emergency fund:

**Step 1 – Calculate it!**
Determine how much you need to have in your emergency fund (as explained above). Break this down into an amount you think you'll be able to contribute to the fund every month.

**Step 2 – Budget for it!**
Include the monthly amount you calculated in step 1 in your budget.

**Step 3 – Find the money for it!**
Automate a recurring transfer at the bank from your cheque banking account to your emergency fund. If you don't have enough money in your cheque banking account you should explore other options. You can save all the spare change scattered around the house or look for things you spend too much money on in your budget such as overspending on fast food. You can also consider taking on a second job for a certain time to build your emergency fund.



# SAVING AND INVESTING

The importance of saving and investing cannot be stressed enough – you need savings in case of an emergency, to make provision for taking care of your family or planning for retirement. Saving is the foundation of building income-generating assets which will one day produce sufficient and consistent passive income with which you can meet your expenses. You will then have enough money to do what you want, when you want, without anybody telling you what to do – true financial freedom!

The question is: Where do you start when you don't have a lot of money to save or invest in the first place? The answer should provide great peace of mind to young people. Creating wealth and reaching your investment goals are more about taking small, consistent steps at the right time than making big, potentially ill-timed leaps now and then. Time is on your side and, in the investment world, this is a very powerful tool to have.



## GETTING YOU STARTED: THE 'WHAT' PROCESS

1. **What do you want to save for or invest in?**
   We call these your savings and investment goals. These will look different from person to person as we don't have the same priorities in life. Education is important to some people while others only want to travel or buy the newest car on the market.

2. **What is the time horizon for each of your goals?**
   One of your savings goals might be to drive a new vehicle in five years' time, while you are also planning to save for retirement in 40 years from now.

3. **What do you need to put away for your goal?**
   Several factors play a role when determining how much you should save for each goal – the price or cost associated with the goal, the impact of inflation over time and the expected return on your investment.

4. **What should you invest in?**
   There are numerous savings and investment options available. You can put your money into a savings account, fixed deposit, retail bond, direct or listed property, direct shares portfolio, unit trust or retirement annuity, the list is never ending.

## THE WHAT GRID

Here are some examples of how you can put your budget table together:

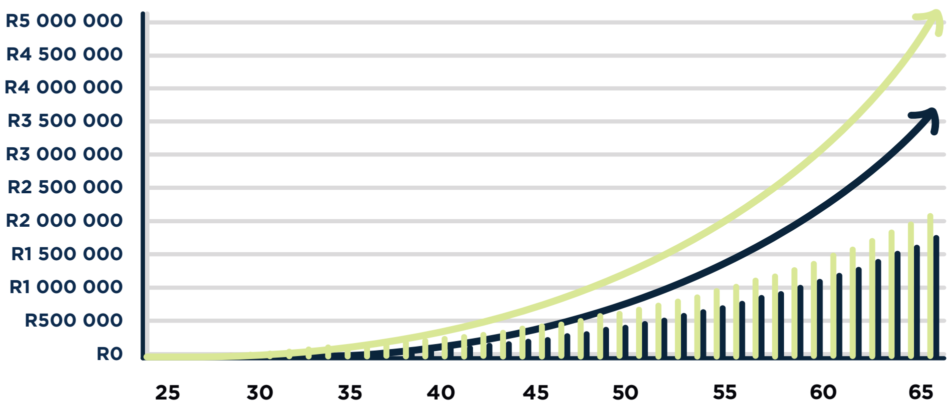
| GOAL | WHY? | TIME HORIZON | GOAL AMOUNT | MONTHLY BUDGET | PLAN OF ACTION |
|---|---|---|---|---|---|
| **Emergency fund** | Financial Freedom | 24 months | R60 000 | +/- R2 500 | Go to the bank to open a money market account |
| **Buy a new car** | My "student car" is seven years old | 5 years | R250 000 | +/- R4 200 | Ask my financial adviser to help |
| **Start to invest in unit trusts** | Build income-generating assets | 20 years | Not sure | I have R1 500 | Ask my financial adviser to help |
| **Start saving for retirement** | Financial Freedom | 40 years | I don't know | I don't know | Ask my financial adviser to help |

*Ask your PPS Financial Adviser to assist you in completing the above grid. He/she can help to identify your goals, to calculate the goal amount, how much you should save each month and the best saving/investment option available. Investment planning can be complicated and should not be attempted without professional advice.

# THE TWO GOLDEN RULES

## RULE #1
### START SAVING/INVESTING AS SOON AS POSSIBLE

Why is time such a key factor to consider when it comes to investing? One of the reasons is the effect of compound interest. In fact, Albert Einstein said the following: “The power of compound interest is the greatest mathematical discovery of all time”. The below example will illustrate this powerful effect.




**John – Starts early at age 25**

Lifetime Contribution

Retirement Value

**Assumptions:**

- Time horizon – age 25 to 65 (40 years)
- Starts with R1 000 per month (R12 000 p.a.)
- Increases savings by 6% per annum
- Investment return of 6% per annum

**Peter – Starts late at age 35**

Lifetime Contribution

Retirement Value

**Assumptions:**

- Time horizon – age 35 to 65 (30 years)
- Starts with R1 689, 48 per month (R20 273, 76 p.a.)
- Increases savings by 6% per annum
- Investment return of 6% per annum



## RULE #2
### SAVE/INVEST AS MUCH AS POSSIBLE

| | START SAVING R1000 | START SAVING R2500 |
|---|---|---|
| | 25 | 25 |
| **MONTHLY SAVINGS** (FIRST MONTH) | R 1000 | R 2 500 |
| **SAVINGS INCREASE** | 6% PA | 6% PA |
| **RETIREMENT AGE** | 65 | 65 |
| **INVESTMENT TERM** | 40 YEARS | 40 YEARS |
| **ESTIMATED RATE OF RETURN** | 6% PA | 6% PA |
| **TOTAL INVESTED** | R 1 857 143 | R 4 642 858 |
| **FUTURE VALUE OF INVESTMENT** | **R 4 937 144** | **R 12 342 861** |

It‘s clear from the two illustrations above that saving and investing as soon as possible, and as much as possible, is the smartest thing a young professional can do. Reaching financial freedom will provide you with the opportunity to lead a more comfortable, enjoyable and flexible life.

# FORWARD

You’ve attended the workshop, you’ve learned some valuable financial lessons, and you’re excited to go on the adventure – now what? Schedule an appointment with your financial adviser.

They’ll assist you to define your relationship with money, identify your life and financial goals, develop and implement a financial plan and track your progress. As a young graduate professional starting out on your career path, you’re in the fortunate position of having time on your side. Not only that but you’re also part of only 1% of the South African population with a qualification equivalent to that of an honours degree and can, therefore, enjoy a bright future with a steady income. Stay focused and disciplined on your journey to financial freedom and reap the rewards that your ultimate destination has to offer! We wish you well on your journey to financial freedom!

FOR PROFESSIONALS

SINCE 1941