



# key financial issues that affect you

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# financial planning is a balancing act

- what you spend now vs what you spend later
- what risks do you take vs what you share with others
- tax breaks vs costs
- contractual investment (life assurance) vs non-contractual investment (unit trusts)

# financial planning is a balancing act

- alpha plus beta (active) vs beta (passive)
- multi-management vs single manager
- higher risk, higher returns vs lower risk, lower returns
- short-term vs long-term
- early retirement vs later retirement
- your lifestyle vs lifestyle of your heirs

# Forrest Gump

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“Mama always said life was like a box of chocolates, never know what you are going to get...”

## some of the chocolates of life

- marriage
- plan for one more and get three
- retrenchment
- big promotion
- divorce

## some of the chocolates of life

- dependant parents
- boomerang children
- disability
- early death
- unintended consequences of choice

## not eating all your chocolates

- retirement funding is deciding what pleasure you will forgo now to have some pleasure in retirement
- too little saved = poverty in retirement
- retire early = less in retirement
- live too long = depletion of cash
- too much saved = unnecessary sacrifices before retirement

## the retirement chocolate box

### build up to retirement

- how much you save
- how soon you start saving
- investment choices
- investment returns
- product choices
- preservation of savings
- date of retirement

# the retirement chocolate box

## retirement

- net retirement ratio (average 28 percent)
- annuity choice and when to switch annuities
- investment returns and the risks you take
- longevity (date of death)

# the retirement chocolate box

## replacement ratios:

retirement age	age now			
	20	30	40	50
60	77.8%	50.4%	29.1%	12.5%
61	83.3%	54.4%	31.8%	14.3%
62	89.4%	58.7%	34.8%	16.2%
63	96.0%	63.5%	38.1%	18.3%
64	103.2%	68.6%	41.6%	20.7%
65	110.9%	74.1%	45.5%	23.2%

# the retirement chocolate box

the longer you leave it the more you need

current age	targeted retirement age		
	55	60	65
20	10%	7%	6%
30	16%	12%	8%
35	22%	15%	11%
40	32%	20%	14%
50	51%	48%	27%
55		103%	44%

assumptions: target 75% of final annual salary with a 3% real return

# the retirement chocolate box

the flavour keeps changing:

year	inflation	10yr bonds	annuity
example			
Jan '99	7.3%	13.96%	R1 356.61
Jan '00	7.0%	12.89%	R1 270.56
Jan '01	7.7%	12.61%	R1 208.29
Jan '02	7.1%	10.44%	R1 074.85
Jan '03	10.0%	9.15%	R 961.96
Jan '04	4.2%	9.27%	R 873.05

## using your chocolates to get more

Investment is about future chocolates.  
the future depends on:

- your investment goals
- time horizons
- your determination to reach the goals

## the investment chocolate box

- how much you save
- how soon you start saving
- how long you save
- how quickly you dis-save

## the investment chocolate box

- investment choices (both in saving and dis-saving)
- investment product choices
- costs
- investment returns
- preservation of savings

## the investment chocolate box

some tasty chocolates:

- the best tax free guaranteed return you can get is paying off your debt
- the best interest rate comes from RSA retail bonds (available from the Post Office)
- the cheapest equity investment is in exchange traded funds (and in the long term you will probably do better)

## the investment chocolate box

### choosing chocolates:

- inflation vs returns
- product vs product
  - life assurance RA vs unit trust RA
  - capital guaranteed index linked vs life guaranteed product
  - versatile vs contractual

## the investment chocolate box

- greed vs fear
- costs vs returns
- tax vs tax
- too conservative vs too aggressive
- passive vs active

# the investment chocolate box

## Inflation and being too conservative:

- R1 000 a month X 480 months = R480 000
- average annual return of 8% = R3 221 070
- average annual inflation of 10% = R340 329

## having enough chocolates

- most people do not have sufficient chocolates to meet the needs of people who depend on them
- insurance is there to ensure that there is 'sufficient' when life deals you a bad hand.

## having enough chocolates

but it is a continual balancing act...

- too much insurance = you go without
- too little insurance = you and your dependants go without

## the insurance chocolate box

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you need risk (life and disability)

life assurance to:

- cover debt
- to meet goals
- to provide for dependants

## the insurance chocolate box

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you need medical insurance  
(medical aid) to:

- afford to be ill... or to be hit by a bus
- you need short-term insurance to:
- protect what you own

## the life assurance chocolate box

- a child is born
- saving target R150 000 in 18 years
- you die after 10 years
- you have only saved R60 000
- you need to cover the risk

## the life assurance chocolate box

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But say you die after 15 years and investment markets have been good:

- you only need R10 000

you are still insured for R150 000

- you are denying yourself chocolates now!

## the life assurance chocolate box

know what is inside the life  
assurance chocolate wrapper:  
types of risk assurance (death):

- whole of life
- term (level and decreasing)
- credit life
- funeral assurance

Risk life assurance is not an  
option... it is a necessity... but...

## the life assurance chocolate box

life assurance is for covering risks:

- it is not to be mixed with investment
- keep investments separate from risk assurance
- life assurance investment products often transfer business risks to you
- life assurance investment products can place you at risk

## the life assurance chocolate box

calculating how many assurance chocolates you need:

target goal:	lots of rands
less what I have:	few rands
what I need:	life assurance

## the life assurance chocolate box

### health warnings:

- life assurance is not to make your dependants rich – and make you poor while you live
- compare premiums
- but cheap assurance can be expensive (watch the premium guarantees)

## the life assurance chocolate box

- be on with the new love before you are off with the old (apologies to Will Shakespeare)
- remember you have group life assurance
- be cautious of accident and big toe assurance
- always confess to the dickey heart and weekend sky diving

## the life assurance chocolate box

average gap in life assurance based on average earnings of R60 000 a year

age category	ideal level	actual level	rand shortfall	percentage shortfall
up to 30 years	R 1,264,988	R 309,636	R 955,352	76%
31 to 45 years	R 838,017	R 395,552	R 442,465	53%
46 to 55 years	R 364,659	R 200,447	R 164,212	45%
over 55	R 106,613	R 92,795	R 13,818	13%
all	R 531,028	R 238,837	R 292,192	55%
income category				
up to R3 800	R 175,787	R 21,241	R 154,547	88%
R3 800 to R8 200	R 497,827	R 167,425	R 330,401	66%
over R8 200	R 1,320,287	R 765,396	R 554,891	42%
all	R 531,028	R 238,837	R 292,192	55%

## the disability chocolate box

different types:

- own or similar
- any job
- impairment

watch the limits

watch the exclusions

## the medical chocolate box

### medical aid schemes

- a balance between contributions and benefits
- the more benefits the higher the contributions
- the younger and the healthier you are the fewer the benefits you require

But save for when you are old and sick and need better benefits

## short-term insurance chocolate box

- understand the difference between replacement value and depreciated value
- only insure what you cannot easily afford to replace
- use voluntary excess
- don't let the broker over-insure
- and don't under-insure yourself
- watch for exclusions

## the best chocolate box

- Products, both generic and branded, will help ensure whether you will have sufficient chocolates at the right time for the right need.
- The right and independent advice will help you ensure you have the right products for the right time for the right need.

## the best chocolate box

- costs (reduction in yield)
- tax
- returns
- choice
- guarantees
- versatility versus contractual limitations
- appropriate vs inappropriate

## giving chocolates

estate planning is balancing up your pleasures against those of others.

you must decide:

- to whom you give chocolates
- where the chocolates come from
- how many chocolates you give
- how you give the chocolates

## giving chocolates

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don't forgo chocolates in retirement by:

- the wrong choice of annuity
- not switching to a guaranteed annuity

questions?



thank you

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