

PERSONAL FINANCE

Draw up a financial plan to build the lifestyle you want

by: Neesa Moodley-Isaacs

A financial plan is a blueprint that defines how you will achieve your financial and lifestyle objectives. At the acsis/Personal Finance Financial Planning Club's series of meetings this month, Gerrit Viljoen, the director of Ultima Financial Planners in Pretoria, talked about what you need to consider when drawing up a financial plan.

When you want to go on holiday, you start preparing and planning months beforehand to make sure that your holiday will go smoothly. And yet many people fail to put a similar amount of effort into preparing a financial plan, Gerrit Viljoen says.

Although gambling, for example, may seem like an exciting way of taking care of your financial needs, you stand to lose everything. Financial planning, on the other hand, can be very boring, but the result will be your financial security, Viljoen says.

Applying the fundamental principles of financial planning over the long term will enable you to achieve your lifestyle objectives.

Although there are many good financial planners, Viljoen says there are just as many who are merely product pedlars.

"If your financial planner is punting several products instead of looking at your needs, you could be in trouble," he says.

Viljoen says you can try to draw up a financial plan on your own, as long as you know what constitutes a financial plan.

"Your policy schedule or statement is not a financial plan. A statement reflects your policies, assets and investments, but it is not a financial plan," he says.

To develop a sound financial plan, you need to draw up a budget and identify your financial and lifestyle objectives.

"You may want to buy lots of property while you are young and then retire at 50 to travel the world. Or you may want to open your own business and then retire at 60 to a cottage in Mauritius. Your financial plan needs to be tailor-made to your needs and objectives," Viljoen says.

When you are developing a framework for your financial plan, you need to recognise the fact that you will always live according to your value system.

"You have to get your values and your life in order before you can get your finances on track," he says.

Your values are the things that define you or that are most important to you - for example, possessions, status, relationships or the freedom to travel the world.

Know thyself

Viljoen says a good way to figure out what you value is to imagine yourself in the following scenarios:

- You are financially secure - you have enough money to take care of your needs now and in the future. How would you live your life and what would you do with your money? What changes would you make to the way you are living now?
- Your doctor tells you that you have five to 10 years left to live. The good news is that you won't feel sick. The bad news is that you may die at any time during that period. What would you do in the time you have left? What, if any, changes would you make to your lifestyle?
- Your doctor tells you that you have only one day left to live. Take note of your feelings as

you suddenly come face to face with your mortality. Ask yourself which of your dreams will be left unfulfilled, what you wish you had done and which projects you wish you had completed.

Your answers to these questions will give you the best idea of what you really value, Viljoen says.

Know your Assets

You need to identify what type of assets you have so that you know how you can build your wealth, Viljoen says. You can have four different types of assets:

- Business assets, which can include an investment property, your business or anything that provides you with an income.
- Lifetime assets or investments, which can include your retirement savings. You need to build up these assets. Conservative lifetime assets include equities, bonds and cash.
- Lifestyle assets, which can include an expensive car or a Persian carpet.
- Surplus assets, which are any other assets you have after you have accounted for the other three categories of assets.

Identifying your assets will enable you to determine whether or not you are saving enough and whether or not your business assets are bringing in sufficient income so that you can afford your lifestyle assets and maintain your standard of living, Viljoen says.

It is crucial that you re-examine your financial plan as you move through different stages of your life, he says. For example, when you are a young adult and have few investments, you will need more life cover. However, as you grow older and your investments increase in value, your need for life cover decreases.

COMMON MISTAKES YOU SHOULD AVOID

Gerrit Viljoen used the following analogies to highlight some of the common mistakes you should avoid when planning your finances.

1. Relying on one person

If you decided to build your dream house, you would have a good idea of what you wanted your home to look like.

If you employed an architect and he or she simply presented you with a plan that he or she had drawn up previously, you would not hesitate to tell the architect that the plan does not match your vision of how you want your house to look.

“It doesn’t make sense that in exactly the same scenario in the financial planning arena you are likely to accept a plan given to you by a financial adviser and walk away with something you did not want in the first place,” Viljoen says.

An architect should draft a plan or blueprint that will enable the builder to construct the house you want. The builder may use sub-contractors to do, for example, the painting and tiling.

You would employ a quantity surveyor to work out the cost of the construction and a civil engineer to supervise the work.

You would employ a landscape architect to create the perfect garden and an interior decorator to ensure that your home is tastefully decorated.

Viljoen says you would be wary of a builder who claimed that he or she could do everything. After all, a builder cannot be expert in everything, and you may end up with shoddy or poor quality workmanship in your home.

Similarly, Viljoen says, when it comes to planning your finances, you should use:

- A financial planner to develop your financial plan;
- An insurance agent to adjust your life assurance as your lifestyle changes (but this does not mean constantly churning policies);
- A lawyer if you are setting up your own business;
- A trust specialist if you want to establish a trust; and
- An asset manager to help you choose the investments that will provide the returns you require.

You should be wary of a financial planner who tells you that he or she can perform all of the above functions, Viljoen says.

2. Chopping and changing

You plan to build a home when you retire at the age of 60. At 30, you decide to prepare for this by stockpiling bricks and tiles.

After five years, a bricklayer tells you that you have stockpiled the incorrect type of bricks and that you need to throw out all of them and buy new bricks from him.

At the age of 40, you decide that the tiles you have stockpiled are outdated, so you throw out all of them and buy new tiles.

“Most people would laugh at the above scenario and would never throw away bricks or tiles that they have already spent money on.

“However, the same people are quite willing to cancel their policies or investments after speaking to a different financial adviser. Later on, they become disgruntled when their policies or investments do not yield the returns they were hoping for,” Viljoen says.

WHAT YOU NEED TO FACTOR INTO YOUR PLAN

A financial plan has several components, Gerrit Viljoen says. They include estate planning, risk planning and investment or retirement planning.

- Estate planning. You must have a signed will that, in terms of the law, can be executed, he says. Your estate should be able to settle your outstanding debts when you die. You must also ensure there will be sufficient funds in your estate to settle the costs of winding up your estate – for example, executor’s fees, estate duty and capital gains tax.

- Risk planning. You need to work out how much money your dependants will need to maintain their standard of living when you die, Viljoen says.

“You cannot thumbsuck a number when you are trying to determine the needs of your family. You actually have to sit down and plan down to the last cent,” he says.

Ideally, there should be a lump sum in your estate to eliminate your debt, replace the family car and pay for your children’s education, Viljoen says.

“If you look at your assets and there is still a shortfall in the amount your family requires when you die, insurance can be a good way to cover that shortfall,” he says.

You must include any employee benefits, such as your group life assurance, when you calculate your family’s financial needs, because these benefits can make a big difference to the amount you require, Viljoen says.

“Sometimes it can work out cheaper to increase your employee benefits at your own cost than to buy a new life policy,” he says.

- Investment or retirement planning. Your first step must be to determine your investment goal. You should invest for the long term and stick to your strategy without being swayed by short-term market movements, Viljoen says.

“Use specialists so that you target the correct investments for the returns you require,” Viljoen says.

An insurance agent or a financial planner cannot choose investment products for you, as this is not their area of expertise.

“They don’t have the time or the knowledge to give you the best advice in this regard. A good financial planner will refer you to or work with an asset manager to make sure that you make the best possible investments for your needs,” he says.

Viljoen says many people incorrectly think they need a financial plan only until retirement, at which stage they can rely on their retirement funds.

“Your retirement fund trustees are not drawing up a financial plan for your retirement. They are merely managing your money until your retirement. At that point, they hand the money to you, and whether or not it is enough for your retirement is not their concern. So it is your responsibility to plan beyond your retirement date,” he says.

You will require increasing returns in retirement to maintain your lifestyle, so your financial plan should last until the day you die.

Viljoen says it is absolutely crucial that you start saving or planning early for your retirement. The longer you delay saving or planning, the more you will have to put away.

For example, he says, if you will require savings of R30 million when you retire at 65 and you start saving at the age of 25, you will need to put away R2 493 a month. However, if you only start saving at 30, you will have to put away R4 560 a month. If you delay saving until you are 45, you will need to save R29 648 a month to have R30 million at retirement.