

PRINCIPLES TO HELP YOU SECURE YOUR FINANCIAL FUTURE

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I'm often asked by younger clients, "What can I do now to secure my financial future in 25 years' time? Are there some principles I can apply that will really make a difference over the long term?" Below are some suggestions to help you improve your finances this year.

Make this the year that you take the time to get a snapshot of your current financial situation and create a personal financial plan to achieve your long-term goals.

HAVE A PLAN, WORK YOUR PLAN, REVIEW YOUR PLAN REGULARLY

What kind of life do you want to live in the future? What are you wanting to save towards? What does your preferable future look like? Visualise it. What are you going to do to make it happen?

"Without vision, there is no direction, without direction there is no purpose, without purpose there are no targets, without targets there are no priorities. Without priorities there is no plan, and without a plan there is no hope." – Dr David Cormack

I often relate the story in Alice in Wonderland, when Alice asks the Cheshire cat, "Which way should I go?" And the cat responds, "Well, that depends on where you want to go." If we don't know where we want to go, then, as Ben Gaye III commented, "No amount of travel on the wrong road will bring you to the right destination." Nobody plans to fail, but many people fail to plan.

After assessing your financial situation and your life goals, think about how you are going to make it happen. Create a financial plan based on your unique needs and goals. It is important to regularly review your plan to make sure your goals are on track, and to make the necessary adjustments when your personal circumstances change.

PAY YOURSELF FIRST

Invest at least 10% of your income (excluding your retirement contributions) through a monthly debit order with an annual escalation rate in line with inflation. This means that you will more than likely forget about it and won't notice a drastic change in your lifestyle. Try not to touch this investment (exercise delayed gratification) to benefit from the miracle of compound interest – the 8th wonder of the world, according to Albert Einstein.

"If you want to become really wealthy, you must have your money work for you. The amount you get paid for your personal effort is relatively small compared with the amount you can earn by having your money make money." – John D. Rockefeller.



“Do not save what is left after spending but spend what is left after saving.” – Warren Buffet

THE GIFT OF GIVING

Be grateful and help others that are less fortunate. Furthermore, donations of up to 10% of your taxable income to public benefit organisations (PBOs) can also give you a tax deduction. If these PBOs are registered with SARS and comply with section 18A of the Income Tax Act, you will receive a valid tax certificate for your donation, which will reduce your taxable income. Learn to be content and to live on the remaining 70% or less of your income.

“Earn all you can; save all you can; give all you can.” – John Wesley

SARS IS YOUR FRIEND – MONEY FOR NOTHING

Save at least 10%-15% of your gross income towards your retirement. You will need about 12-15 times your current annual income saved to maintain your standard of living (assuming no debt). You however need to note that this is just a rule of thumb - you still need to consult with your financial planner to do a proper needs analysis to ensure a proper financial plan is put in place to satisfy your retirement needs. A tax deduction is allowed for contributions to retirement funds (pension, provident or retirement annuity fund) up to 27.5% of your taxable income or remuneration, limited to a maximum of R350 000 per tax year. Any contributions in excess of these limits are carried over to future tax years. The government is your friend! Not only do you get a tax benefit (money for nothing) on retirement fund contributions, but all the growth inside retirement funds before retirement is completely tax-free.

CONSIDER INVESTING IN A TAX-FREE SAVINGS ACCOUNT

You can invest up to R36 000 per tax year (the equivalent of R3000 a month) with a total contribution of R500 000 over your lifetime into tax-free investments without being taxed a single cent on any of the returns on these investments.

CREATE AN EMERGENCY FUND

Covid has taught us that emergencies happen, and you must be financially prepared when unexpected expenses occur. Aim to have at least two to three months' net salary readily available in cash or a money market account (or even in your bond) in the event of a financial shortfall.

PROTECT YOUR INCOME

Your biggest asset is your capacity to earn an income and you must make sure that it is protected should something happen to you. If you have a family or dependants, the best investment you can make for them is sufficient life, disability and dread disease cover (compare the cost of that versus how long it will take you to save R1 million, for example).



MAKE SURE YOUR WILL IS UP TO DATE

Ensure that your will is properly drafted and valid. All your beneficiaries must be listed and up to date. Apart from leaving money for your family, you can also be a blessing to others by donating to charities of your choice. A bequest to an approved public benefit organisation will also serve as a deduction for estate duty purposes.

BUILD ASSETS THAT GENERATE POSITIVE CASH FLOW RATHER THAN LIABILITIES

Manage your cash flow. Make sure that you have a surplus every month and are not living beyond your means. Building wealth takes time – there are no quick shortcuts.

BEAT THE POVERTY MINDSET

Change your thinking to realise that income is plentiful, not limited. Sometimes, as Peter Sage says, “You don’t need more money, you need a better strategy.” Write down a financial goal once a week, such as how to cut down on your groceries, or increase your income and come up with a practical solution to achieve your goal. Continue to tackle one goal a week until your financial situation starts improving. Invest in yourself, through financial education/literacy as well as your own skills. Remember that the more skilled you are, the more you deserve to earn.

PAY OFF YOUR DEBT AND BE CAUTIOUS ABOUT TAKING ON MORE

Make an effort to pay off bad debt (store and credit cards) starting with the highest interest rate first. David Chilton wrote, “Over the past fifty years, borrowing has gone from a shameful vice to the national pastime.” It’s generally better to pay more into your bond every month and shorten the payment term than putting money into a market account or a fixed deposit.

STRETCH YOUR SAVINGS, BE SAVING SAVVY

A rand saved is two rands earned. In other words, the salary you take home each month has already had income tax, UIF, your pension fund contribution and sometimes medical aid deducted. For every two rands you earn, you might actually see only one rand. But for every two rands you save, by shopping around for example, you keep the entire two rands. Savings aren’t taxed! Therefore, saving R400 on a TV set may be the same as getting a R680 increase at work. People will do a lot to earn some extra cash, but not to save money.

IN CLOSING - TAKE CONTROL

Have a budget. “A budget is telling your money where to go, instead of wondering where it went.” – John C. Maxwell. Take control of your finances by recording all your expenses for a month, to get an idea of where your money is really going. You will probably find that you are spending money on non-essential items like coffee and lunch at work. Be careful about small expenses. Make a list of your expensive habits and try to eliminate unnecessary expenses one at a time. Stop impulse buying. When you want to buy something think: “How much time would I need to work to pay for this?”. If the amount of time shocks you, put it back on the shelf and move on. See where you can cut, save or donate to others.

Disclaimer:

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