PERSONAL FINANCE BOOT CAMP

Personal BOOT

In the final instalment of the *Finweek* Personal Finance Boot Camp series, we reveal the financial planners' final recommendations to their respective candidates. The project has seen varying degrees of success across the board, and every candidate has walked away with a better understanding of their own financial situation and now has more of a handle on their financial future. Below are the individual recommendations from each planner to the candidates.

CANDIDATE A

DURBAN FAMILY MAN

Planner: Colin Long from Consolidated Financial Planning

RETIREMENT

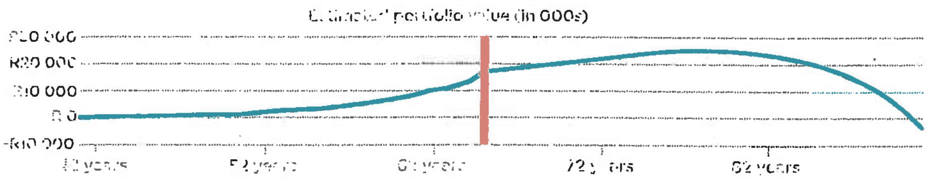
- Income required in today's terms: R25 000 per month, escalating annually at inflation + 0.5%.
- Income is to be protected until at least age 90.
- In order for candidate A to achieve his retirement goal, he would need to invest R5 000 per month, increasing at 8% per annum, into a unit trust investment vehicle targeting an investment return of inflation + 6%. This would be over and above his contributions to his provident fund.

RECOMMENDATIONS

Candidate A should have a will drafted for the following reasons:

- To ensure that that his wishes and bequests are carried out accordingly.
- To protect his daughter's income requirements in the event of his and his spouse's simultaneous deaths.
- To expedite the winding up of his estate.
- To ensure the successful integration of the entire financial plan.

Liquidity analysis



By bequeathing his estate to his spouse, Candidate A will have to ensure estate duty liability upon death.

It is also important that where possible, Candidate A should appoint beneficiaries on his investments as this will avoid the cost of executor's fees upon death and thus reduce his death bed expenses.

Candidate A currently will not benefit from a tax point of view by investing the required retirement savings in a retirement annuity. A unit trust investment vehicle is the next most tax effective investment vehicle for Candidate A to invest his money in.

Based on the investment strategy that Candidate A needs to follow, he can invest as much as R2.9m in a unit trust structure before having any tax liability.

When investing, Candidate A must always be aware that investment vehicles have very little to do with investment returns and they should predominantly be used for tax and liquidity requirements.

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Finance CAMP

Each week you can follow the real-life journey of the candidates as they work through their most pressing financial concerns with a specialist planner that will coach them into a better position financially and help prepare them for their immediate and long-term financial needs.

CANDIDATE B

CAPE TOWN CAREER WOMAN
Planner: Morné Bezuidenhout from Netto Invest

Candidate B earns R25 000 per month on a cost to company basis and is a member of the company retirement fund. The retirement fund also provides life and disability benefits.

Candidate B noted that she would require approximately R20 000 per month after tax in real terms once she had reached retirement.

Candidate B would probably not retire outright but would reduce her hours once she reaches age 65.

Candidate B had just inherited approximately R850 000 from her mother and needed advice as to how to deploy these funds. She wanted specific input as to whether she should continue renting, buy a property to live in or buy a property as an investment that she could let.

At the moment she is renting a flatlet from her cousin. The rental is R5 000 per month.

RETIREMENT

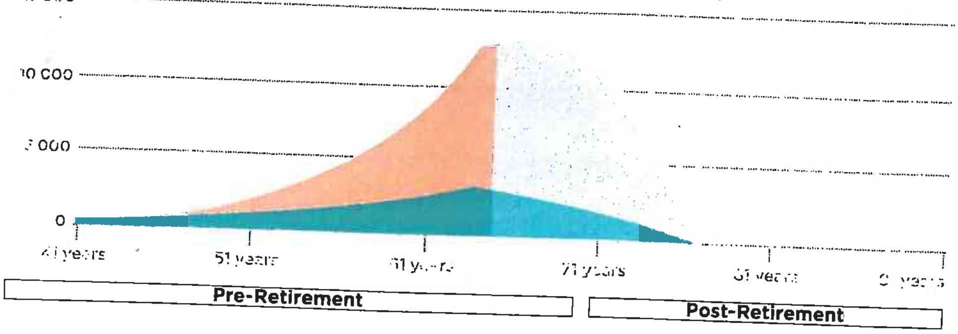
In order for Candidate B to achieve her goal of receiving R20 000 per month after tax in real terms, she would need to achieve a real return of 6% per annum pre-retirement a real return of 4% per annum post-retirement.

At the moment she contributes approximately R3 000 per month toward the company retirement fund and she is a member of a retirement annuity and contributes R1 380 per month. The portfolio would continue until she reaches age 77.

Candidate B was advised to increase her monthly savings by at least R2 000 per month. This would mean that the portfolio would then continue until she is 82 years old. It was suggested that Candidate B invest these funds in a flexible unit trust option as she has already used up her retirement annuity capacity.

A budget exercise was done, which demonstrated that although not easy, it was possible to save an additional R2 000 per month by making small sacrifices. These

Current retirement outlook



savings compounded over 25-odd years amount to a significant difference in the long run.

Provided she acts in a responsible manner, the inheritance Candidate B has received places her in a fortunate position as this can make a huge difference to her retirement planning and financial independence.

Candidate B was advised to consider investing a portion of the investment in a balanced unit trust portfolio with exposure to shares, bonds, property and cash (including offshore). The unit trust should have a reasonable offshore exposure to protect the portfolio from rand weakness and exposure to overseas markets.

The remainder should be placed down as deposit on a property.

Property is a great investment as it allows gearing. The location of the property is really important. However, it is not a passive investment and does require effort from the investor. We assumed a property purchase of approximately R1 250 000 on the Atlantic Seaboard.

In Candidate B's case, we used a deposit of R400 000 – this would allow her to run a loss on the property for income tax purposes but also give her a buffer for further interest rate increases. It seems that we are at the start of an increasing interest rate cycle for the next couple of years.

We assumed that she would need a rental of at least R9 000 per month from the property.

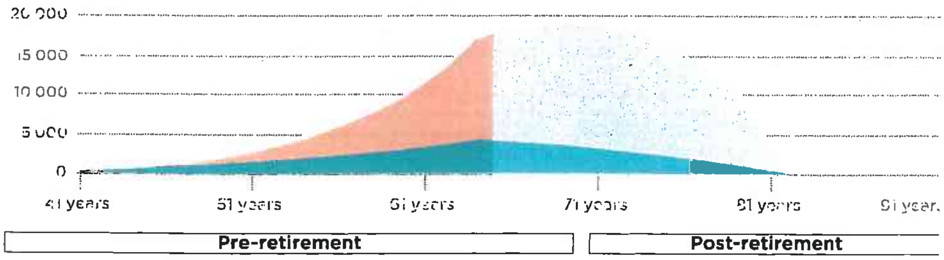
A portion of the funds should be kept aside as an emergency fund in a money market. This would help with unforeseen events, especially with regard to the rental property, for example, if the tenants were to default.

The retirement projection given these changes meant that the portfolio would then continue being viable until she reaches age 97.

Candidate B has a life cover benefit through her company. This is sufficient to cover her outstanding debts. There is no need to provide for any dependents. It was advised that Candidate B review her will as her current will is dated.

Candidate B is a member of a medical aid through her company.

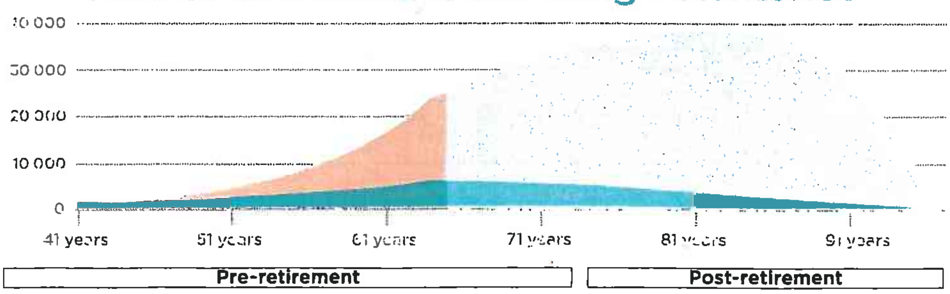
Future retirement outlook



RECOMMENDATIONS

Candidate B has a disability benefit through her company and has supplemented this by an additional income protection policy in her own capacity. This is important as she is reliant on her income and has no spouse or partner to fall back on should she not be in a position to work. Candidate B also has sufficient critical illness cover that she has taken in her own capacity.

Retirement outlook including inheritance



CANDIDATE C

JO'BURG SCHOOL LEAVER

Planner: Craig Turton from Chartered Risk Solutions

The following list covers all our recommendations in summary. Each recommendation is derived from the financial planning we did with Candidate C.

RECOMMENDATIONS

Her main concern, as with many people in South Africa, is access to good healthcare. She does have an existing condition, which adds to this concern. We are therefore going to join Discovery Healthcare on a pure hospital plan to address this need and concern. The plan is called Keycare Core.

She does have two credit card debts which is a worry for her. The fact that she uses these credit cards for vital living expenses and not luxuries shows her understanding of the pitfalls to credit cards. This will also make it easier for her to manage this debt moving forward. We are going to open an account that will be used in the future, rather than these credit cards. We discussed paying an extra R100 a month into each credit card every month and to not use them again.

We discussed the importance of wealth protection; her biggest asset at the moment is her ability to earn an income. If she was ill for a long period of time or disabled and not able to earn an income, this would affect her financially. We are therefore going to protect her income through an income replacement policy with Momentum. She is also part bread winner in her family, so we are able to add a life cover policy. This is not essential at the moment but minimum policy premiums allow us to add this benefit to her policy.

We are going to open an emergency bank account with Investec. As agreed, she is going to transfer R200 per month into this account, until she has reached three months' worth of monthly expenses. These funds will remain in place and be used for emergencies instead of her credit card.

RETIREMENT

Her current employer does not offer a pension or provident fund. I advised that she needs to start contributing to a retirement fund in her personal capacity. We discussed the possibility of starting a retirement annuity at R500 per month, but after consideration she would like to start this in the near future as she has other personal commitments to take care of at the moment.

She was also advised to have a will drafted as her brother and sister are financially dependent on her and are both minors and therefore cannot manage the assets she leaves to them.

CANDIDATE D

JO'BURG SINGLE MOTHER

Planner: Donovan Adams from Chartered Wealth Solutions

SUMMARY INFORMATION FOR CANDIDATE D:

Candidate D is still working and plans on earning the following:

- R25 000 per month (Net salary for 18 more years)

Her current budget requirements are:

- R22 500 per month

Her current disposable income is as follows:

- R2 500 per month

RETIREMENT

She has planned for an income of R20 000 per month (today's value), escalating at inflation for each year in retirement.

In terms of the required investment return: Her financial plan requires an aggressive investment strategy of inflation + 6%.

How long her money will last:

Taking the above into account, her retirement assets are expected to last to age 92.

RECOMMENDATION SUMMARY FOR CANDIDATE D

Vehicle	Company	What we recommend you do (including strategy and switches)	Surrender value amount	Capital gain/ penalty	Regular debit order	Comments
Risk cover	Momentum	We advise that you purchase insurance cover for the following risk areas: • **Death** • **Disability** • **Critical illness** • **Functional protection**	R500 000 R1 000 000 R250 000 R20 000 p.m.	N/A	Quotation: R1 043 p.m.	Being self employed with no life-insurance cover, you are at risk should something happen to you that prevents you from being able to work. You are constrained by affordability at this stage and this is the minimum amount for which we feel you should be covered. Your premium and benefits will escalate at 5% p.a.
Cash savings	Debt reduction and saving strategy	Any excess funds should be saved to your money market account until you have built up a sufficient emergency fund (±R50 000). Thereafter you can channel savings into your bond to try and reduce your debt owing on your property as quickly as possible.	N/A	N/A	N/A	
Unit trust	Stanlib	Leave as is and once your debt has decreased, begin contributing in future.	R858 166	±R400 000 capital gain should you switch or withdraw the portfolio in full.		These funds are invested in a blend of funds that is in line with your required investment strategy (inflation + 6% p.a.). In order to achieve this goal an adequate exposure to both local and offshore equity is necessary, which this currently allows.