

# Spring clean your finances

## 1. Understand your current position: get it all together

- **Know what you spend.** Review your bank statements for the last three months and determine an average expenditure per month. Focus on 80% of the money and don't get tied up in the small amounts.
- **Take note of what your income is.** Review your total income and ensure that your total spend is less than your income.
- **List your assets and liabilities.** Your assets will include the larger items like house, car, boat, second property. (Don't worry about including furniture and sports equipment here). Your liabilities are amounts owed to the bank or others and will include your home loan, car finance owing, other personal loans, and amounts owing on credit cards and store cards.
- **List the value of your investments.** Listing the value of your investments will show how far you are in becoming financially independent. This will include your pension fund, preservation funds, retirement annuities, unit trusts, cash deposits and any other investments.

Also, list how much you are investing into the investments on a monthly basis. Although the savings rate is unique for each person, this should be between 10% and 15% of your gross income.

- **Life insurance – dare to take a look.** You need to know how much insurance you have:
  - If you pass away;
  - If you become disabled; or
  - If you suffer from a critical illness that will affect your ability to earn an income.

You also want the details of your medical scheme package.

- **Find your short-term insurance policies.** Sometimes cars and houses are insured on separate contracts – make sure you get them all.
- **Your estate.** Get a copy of your will. Or if you don't have one, now's the time to put one in place.

## 2. Review your position

- **Spending.**
  - Review each expense item and decide whether it can be optimised or eliminated.
  - Debit orders are something to take a careful look at.
  - Plan for seasonal extra spending over Christmas and holidays.
  - Insurance is a wasted purchase if it is not needed. Review it regularly.

- **Assets and liabilities.**
  - Compare these to last year and make sure you are going forward, not backward.
  - Try to eliminate the use of store cards and any short-term debt.
  - When deciding to eliminate debt you have two options:
    - pay off all the smallest accounts first to feel speed of progress, or
    - pay off the debt with the highest interest rate first.
- **Investments.**
  - Where is your money invested and is it diversified?
  - How much of your money is invested in growth (high risk) vs defensive (low risk) investments?
  - What is your offshore exposure and is it in based in rands or hard currency?
  - Are you making use of the available tax breaks?
  - Have you considered a tax-free-savings account?
  - Are you saving enough to be financially independent when you are too old to work?
- **Life insurance.**
  - Make sure you do not have more life insurance than you need. This changes over time.
  - Adjust your disability cover in line with your income. With recent changes in tax law, you may be able to reduce it and save on premiums.
  - Consider even a small amount of critical illness (also called dread disease) cover. The occurrence of cancer/heart attack/stroke is very high, and you would need the financial relief such cover brings.
- **Medical insurance.**
  - Review your medical scheme benefits and ensure that they still address your needs. You can downgrade any time but can only upgrade each December.
  - Consider gap cover to cover the difference between hospital expenses and what the medical scheme pays.
- **Short-term insurance.**
  - Is your house correctly insured?
  - Have the values of your cars been depreciated so that you are not over-insured?
  - Has all the new furniture been added to the value of your home contents insurance?
  - Do your security arrangements comply with the policy?
  - Have you disposed of any items that no longer need to be insured?
- **Your estate.**
  - Read your will and ensure it still fits your circumstances.
  - Check that the beneficiaries on your life policies, your pension fund, and your retirement annuities are all listed and still appropriate.
  - Many people don't have a will. Have one properly drawn up, or use the free will template available from: <http://www.netto.co.za/usefultools/>

### 3. Take action

- A review won't help unless you take action! You need to act on what you discover during your spring clean by implementing the necessary changes to your financial portfolio.
- List the items that need attention and diarise their implementation.
- A professional financial planner will add value to your financial life – consider finding one.