

Module 5

Grow your money



Learning outcomes

- Understand what a financial safety net is.
- Understand how to start saving
- Understand and apply the benefits of savings and investments
- Identify and understand different savings and investment options
- Understand and recall the top savings and investment tips
- Identify what is insurance and why do you need it
- Understand the different types of insurance. (insurance options)
- Understand and apply the benefits of having insurance
- Apply the different insurance tips

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Introduction

Savings are critical to the well-being of our finances, yet we are too often content with fooling ourselves into believing that 'I have no money to save' or 'savings instruments are too difficult to understand.' Savings and investments are ways to help you reach your financial goals and needs. Getting started with your first budget may seem complicated, but this module will walk you through every step in the process.

Having a financial safety net

Savings are critical to the well-being of our finances, yet we are too often content with fooling ourselves into believing that 'I have no money to save' or 'savings instruments are too difficult to understand'.

Investing is not just about gaining the highest possible returns. It is best to consider your investment objectives to make informed and realistic decisions that will help you achieve your financial goals. Refer to module 4 to recall how to set-up financial goals and the importance of having financial goals.

Start by asking yourself these questions:

- What is your investment goal Is it for retirement, a safety net, or an event – like a wedding
- How much risk are you willing to take
 - you need a guaranteed return, do you want certainty that you will get your capital back, or are you willing to take a chance to gain higher returns
- When will you need the money and how long are you willing to fix your investment term for

Once you are clear about your savings goals, you need to find suitable financial products that will help you achieve your goals

Starting your savings journey

The hardest part about saving money is simply getting started. The following tips will guide you on how to save money and develop an easy and practical savings plan to enable you to save for all your short- and long-term financial goals.

- Always be aware of your finances and your current financial circumstances
 - you have a good credit profile and how much insurance and investments do you currently have
- Look at your and your family's long- and short-term goals, and choose an investment and savings option in line with your needs.
- Review your budget and make sure you live within your means. Identify the areas where you can save on luxuries and start putting that extra money away for savings.
- Open a separate savings account. Different banks have different saving products. Shop around for one that will earn you the highest interest for your money.
- Pay off your debts first. This will help you to save more money.
- No matter how small the amount, make a monthly deposit into your savings account so that you can start the habit of saving.

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- Have the discipline and commitment to save for your goals and do not use your savings unnecessarily.
- Limit the use of credit cards and personal loans and remember that cash is king. Buy your luxury goods with cash rather than credit, if you can't afford it with cash, ask yourself if it is a necessary credit expense before purchasing
- Ensure that you pay all your debts for the month and provide for all expenses before putting money away for your savings. Credit is more expensive than cash.

Benefits of saving and investing

Once you commit to your savings plan and investment plan for your future, saving money today will benefit you in the long run.

Here are some key benefits:

- You build up an emergency fund in case something happens, which gives you more peace of mind in those situations, contributing to your financial wellness
- You can achieve the financial goals that you have set for yourself and your family.
- You can cater to your and your family's needs and wants.
- You get to be positive about the fact that you know you are saving towards something you really want.

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Understanding saving instruments and investment options

Here are your most common savings and investment options:

Short-term savings

This is good to have as an emergency fund for when you need money urgently or when saving for a goal that you want in the near future

Long-term investments

This type of saving/investing is good to have if you are saving towards a bigger financial goal like a house or a car.

Retirement/provident fund

This is a type of investment to make sure that you maintain your standard of living after retirement.

Education policy

The cost of education is rising continuously, and the best way to ensure a secure future for their children is to start saving towards their education as early as possible.

Stokvels and savings

Stokvels are a type of savings club, and they are a good way for people to help motivate each other to save. Some stokvels save for occasions like Christmas; each month, all the money collected goes into a savings account and at the end of the year everyone gets their share. Other stokvels operate more like savings and credit cooperatives, where members 'deposit' money for saving and are able to take out loans at good interest. Traditionally, you have to be invited to join a stokvel, you can't just apply for membership. But you and a group of friends can start your own stokvel. The most important ingredient is trust – you have to know that each member will pay their contribution, and especially that they will continue to do so after they've had their pay-out.

Fixed notice deposits

If you are looking for a relatively secure investment over a short to medium term, fixed and notice deposits might be a good option. Notice deposits generally offer lower interest rates than fixed deposits but allow you to make additional deposits into the account, and you can generally withdraw cash if you give several days' notice.

Fixed deposits

As the name suggests these deposits are fixed for the period – anywhere between one month and five years. Think carefully about the period you choose to fix your investment for, as there might be attractive higher interest rates for longer terms, but early redemption (withdrawal) might not be allowed or it may come at a cost.

Unit trusts and shares

If you are willing to take on more risk, instruments like unit trusts and shares should be considered. These options generally do not guarantee that you will get your capital back. That means might invest R1 000, but get less than that amount back. The upside, however, is that you might get a much higher return than the 4% to 12% per annum you get from guaranteed deposits. An important point to remember is that monthly fees are very often applied to these products and that you should not be in a hurry to see a return. These types of instruments are not a good choice of investment if you are near retirement age, or saving for a specific occasion in the near future.

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Top 5 savings and investment tips

People in South African do not save enough. Mostly they use credit to satisfy their needs and wants. Credit can be good, but it's not always the best way to satisfy your needs. By implementing a savings plan and culture within your household, you will give your family financial security and wealth.



Savings and investment tips

- 1** Shop around for the best return on your savings and investments. You might be surprised to see what you find.
- 2** Re-evaluate your budget and reduce wasteful expenditure in order to save more.
- 3** Pay yourself first with debit orders that channel money into investments on payday followed by your essential necessities. Your 'wants' come last.
- 4** Don't tie up all your money in an investment account that you cannot access immediately in the event of an emergency.
- 5** Your retirement and your children's education are very important. Make sure you've got these covered.

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The importance of insurance

Insurance is an important element of any sound financial plan. Nobody can predict the future and insurance will help you to plan and protect yourself and your loved ones in case of unforeseen events in the future. In order to plan this properly, you need to evaluate your own and your family's circumstances and needs and identify the type and amount of protection you require.

Knowing your insurance options

When you have the right kind of insurance in place, you have a better sense of financial security for the future. Here are the most common types of insurance options available:

Types of insurance

- **Life insurance:** Pays out a lump sum of money in the event of your death
- **Credit Life insurance:** Covers your debt in the event of your death, disability or retrenchment
- **Funeral cover:** Covers the costs of your or a loved one's funeral
- **Vehicle insurance:** Covers the expenses of repairing your vehicle in the event of an accident or the other person's vehicle if you caused the accident, and if your vehicle is stolen
- **Personal Insurance:** Covers you for injuries, income protection, dread disease, or hospital cash insurance
- **Crime and fraud insurance:** Covers you against crime and fraudulent transactions, lost or stolen cards, etc.

Benefits of being insured

By having adequate insurance in place, you will benefit in the following ways:

- **Peace of Mind:** When consumers buy an insurance policy, they take comfort from knowing there is a certain measure of protection against unforeseen tragedies and losses.
- **Asset Protection:** Certain types of insurance policies are designed to protect assets such as homes, cars, boats, and other valuable tangible items. The policies will repair or replace these things if they are lost or destroyed.
- **Physical Protection:** Some insurance policies are structured to protect the body. In the event that a person is injured, disabled, or otherwise physically harmed, these products will compensate for those damages.
- **Income Protection:** There are insurance policies available that will protect the ability to earn a living. If for some reason, a worker is no longer able to continue with gainful employment, these policies can be structured to replace a majority of lost income.
- **Lifestyle Protection:** A certain type of insurance is designed to ensure that the lifestyle to which a family has become accustomed will continue for a certain period if a tragedy occurs and the major wage earner in the household is no longer able to produce an income.

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Considerations before you get insurance

Insurance is not a one-size-fits-all policy. The insurance decisions you make should be based on your family, age, and financial situation. You need to look at your needs and wants, and family circumstances and identify the amount and term that you need protection for.

Whatever your personal need may be, always ensure that you have adequate personal insurance for any unforeseen event. Most individuals are not aware of the amount of insurance cover they need and you might need to seek the advice of a reliable insurance advisor.

Get more than one quote when applying for insurance to compare prices. The costs for insurance vary among insurance companies. It is recommended that you compare rates offered by different insurance companies before signing up.

Avoid being over-insured. Rather invest the unnecessary premiums you would have paid into saving accounts.

Read all your terms and conditions. Insurance companies only pay in accordance with what is included in the terms of the policy. Make sure you understand what is included or excluded in the policy before signing the policy contract.

Keep your insurance premiums up to date. Lapsed policies mean you lose the money you paid towards the policy and that you are no longer protected. If you have defaulted, contact your insurance to investigate the re-instating of the policy as quickly as possible.

Remember that if you show good financial payment behaviour, you may be offered a discount on your policies as insurance companies take into consideration your creditworthiness and payment behaviour.

Always remember when it comes to savings and investments, always follow the S-S-I rules,

Spend wisely.
Save regularly.
Invest prudently.

Now that you are aware of your finances, know how to plan and set goals, and how to save and invest, you are ready to learn more about money as good credit. You can take a look at our Ultimate Guide to Credit here.

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