START YOUR TOMORROW, TODAY

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In this edition

The more you save, the better your chances are of retiring comfortably. We all want to make a little extra money on top of our savings and this is exactly what compound interest is. In this edition, we explain what it is and how it helps grow your savings quicker.

The earlier you start saving for retirement, the better. We talk you through why it's important to start early in your career.

We also explore the best ways to tackle credit card debt and the industry's tips on the best ways of reducing it.

If you'd like to speak to a registered financial adviser, call the Alexander Forbes Individual Advice Centre on 0860 100 444 or email iac@aforbes.co.za.

ALEXANDERFORBES
Securing your financial well-being

Acquire wealth with compound interest

We've all heard the saying 'You reap what you sow'. Compound interest is exactly that. If you start saving early, your gains will be significant.

Certified financial planner Kerry Sutherland from Alexander Forbes Retail explains how the concept of compound interest works and its importance.

"Due to the power of compound interest, saving is the one thing you can't procrastinate. Compound interest is the addition of interest to the initial sum invested, reinvesting this money for the next compounding period, for the entire term of your investment."

Example of how compound interest works

The Naidoos decide to invest R1 000 a month for their child's tertiary education in 18 years' time, investing consistently from the time the child is born. Capital growth and interest are added back into the investment. At an assumed growth rate of 10% each year, the value at the end of 18 years would be R600 500 on a total contribution amount of only R216 000.

Monthly investment amount	Investment period	Yearly growth rate	Total contribution	Value at end of investment period
R1 000	18 years	10%	R216 000	R600 500

This shows the power of compound interest. By investing only R216 000 over a long period, your money can grow to the far more substantial amount of R600 500.

For employees who are part of a company retirement fund, monthly contributions are made to the fund either through salary sacrifice or employer contribution. Usually, this is the most cost-effective way to save because the company is able to negotiate for better investment and administration fees than individuals. If you begin contributing to your company retirement fund at age 25, 19% of your salary should be sufficient. This is if you continue with this for the next 40 years and you don't cash in your funds on resignation or retrenchment.

If you start working later, you would need to invest a higher percentage of your salary to compensate for the lack of compound growth in previous years. An accredited financial adviser would be able to calculate how much you need to save a month to reach your retirement goal.

Sutherland advises setting up a monthly debit order towards an investment as soon as you start working. "This is an excellent way to save for a house, child's education or retirement. You would get used to not having that money in your account and would budget accordingly. As your salary increases each year, you can build in a yearly escalation to your debit order.

The sooner you start, the better."

Saving for retirement – not just for old folks

When we think of retirement, we often have the idea that it's just for old folks. That's not the case. Retirement begins the day we start working and continues throughout our working lives. So whether you've just started working or are nearing retirement, below are some tips to help you plan for retirement.

01 Don't start too late

The sooner you start, the easier it is to reach your goals because of the power of compound growth. If you start saving at a young age, you can save a smaller amount each month to get you to the same target over time.

02 Underestimating how much retirement will cost

It's important to have a budget so that you can see how much money you need each month. This will help you see how much income you'll need after retirement. It's unlikely that you'll just sit at home after retirement and therefore only need food and electricity. A good tip is to use today's values in your calculations and take inflation into account for projections. Once you know how much you need, you can calculate how much you need to save to achieve that income.

03 Pay off debt before retirement

At retirement, you're allowed to take all your money in cash from a provident fund and up to one-third in cash from a pension fund. You might not have enough cash to settle all your debt. The more debt you need to pay, the less you will have to use as an income after retirement.

04 Review your investments

As your targets and situation change, so should your financial plan. Check your retirement savings at least once a year to see whether you're on track.

05 Never assume your employer fund savings will be sufficient

Most employer funds allow you to make additional voluntary contributions, which works out less expensive than saving in your own capacity. You can contribute up to 27.5% of your total taxable income a year, to a maximum of R350 000, and get the tax back on the contribution.

06 Make use of the investment structures available

Choose the product that suits your needs. By diversifying your savings, you can structure your income after retirement effectively.

07 Don't cash in your savings before retirement

Don't take your cash from your employer's fund every time you change jobs. You will have to start your savings from scratch and will need to save more and more each time to get to the same target.

08 Know what products are available at retirement

You can choose a fixed annuity or a living annuity after retirement. Choose your investment portfolios to match the retirement product you're likely to want and choose.

09 Avoid investing in the wrong portfolios

Don't be swayed by emotion when markets are not performing well or when there's uncertainty. If you're saving for a long-term goal, don't make decisions based on short-term volatility.

10 Get accredited financial advice

Why take financial advice from someone who isn't a professional? Speak to an accredited financial adviser from a reliable organisation where you can get advice that is specific to you.

Credit card debt settled in 1-2-3!

Barrie van Zyl, a Senior Manager at Alexander Forbes, explains that credit cards have been around for almost 100 years. Getting out of debt takes hard work, sacrifice and self-discipline. It doesn't matter if you have one or a few credit cards. If you're struggling to make your monthly repayments, the reality is, you have to find more money to pay off your debt.
Barrie advises clearing your credit card debt in these three steps.

1. Understand your current situation

Many people simply find credit irresistible and enjoy spending since they may have materialistic wants. Whatever your decision, understand why you're in the situation you're in. You might also need to make a mind-shift in terms of your financial and personal needs.

If you want to get out of your credit card debt, you'll need to make sacrifices, such as spending less. To do this, you need to stop making excuses and face the reality. Formulate a budget and see where your money is going. You can reduce your expenditure by limiting luxury expenses and purchases, such as:

- DSTV
- Wi-Fi
- eating out and takeaways

Shop around for better deals on groceries, insurance and banking. Don't buy on impulse and be strict with your spending. Once you have some extra cash available, you can move onto the next step.

2. Tackle your debts one by one

The typical way to pay off debts is to start paying off the one with the highest interest rate first. Although this is still a good method, research done by *Harvard Business Review* indicates that the best method to reduce credit card debt is to first pay off the one with the smallest outstanding monetary value.

Let's assume that you have three credit cards with the following outstanding balances:

Credit card	Balance	Minimum monthly payment
A	R10 000	R1 000
B	R5 000	R500
C	R2 000	R200

Once you've done your budget, made some sacrifices, and can afford another R500 a month, keep paying the minimum amount on Card A and Card B, and then allocate the additional R500 to Card C. This means, you increase the payment to R700 a month. You will now pay Card B off in just three months. You now have R700 free to allocate to Card B and the R1 300 premium will allow you to settle this card in another three to four months. Once Card B is settled, you tackle Card A. Not only does this reduce your debts quickly, it motivates you to continue because you are clearing out the smaller debts and seeing progress.

Small accomplishments will spur you on.

3. Stick to it and don't stumble

The most important part is to stick to your plan and not fall into the same trap. You'll be tempted to start spending as you free up some cash and settle debts but don't make the same mistake twice.

You must be disciplined to get through this but keep your end goal in mind.

Economic commentary

Local

The rand gained value against the US dollar in the first half of September but since 12 September, it weakened again. South Africa exported more than it imported so that it had a trade surplus of R5.94 billion in August, more than double the forecast. The rand benefited from this position. The recent jump in petrol prices is going to eat into the disposable incomes of South Africans. The petrol price shock, combined with rand weakness against the US dollar, has created financial market worry that the falling consumer price index (CPI) inflation cycle might be over. But inflation trends also suggest much lower CPI growth for the coming months. This means your retirement investments will do better and earn you higher returns.

Global

President Donald Trump proposed the biggest tax overhaul in the United States in three decades, calling for tax cuts for most Americans. He has been criticised that this move is only good for business and the rich and that it could add trillions of dollars to the trade deficit (where more is imported than exported). Regulators in the United States and Europe imposed $342 billion of fines on banks since 2009 for misconduct, including making 'dirty' money appear 'clean'. Some of the 'dirty' money dates back to the action of banks that caused the 2008 financial crisis.

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