<u>“Be Financially Savvy”</u>

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Money Talks Sweetheart!

“Stretch your money…to fit your month.”

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“**Is your grain stored in the chest …or in Silos?”**

This title poses the following questions:

1. Do you have a financial plan? and
2. What strategy/structure (if any) do you have for your plan?

to provide for your financial future?”

The issue is not whether you have “the correct and perfect plan” but that you indeed have a plan. The idea of a “perfect” plan is an illusion but having a “good plan” is feasible. All plans and strategies require adjustment along the way, simply because we do NOT KNOW all the things that lie ahead and how it will impact our lives and plans. Importantly, the adage goes “those who fail to plan, plan to fail!”

Persons aged 50 years and over, will most likely fall into one of the following 3 main groups:

- Working Fulltime - receiving a salary or income from business etc.
- Semi-retired – Still working but receiving income from employer and/or income from pension, living annuity[1] and/or investment income.
- Fully Retired – Income from retirement funding sources, investments and “other sources”

Due to space constraints, only the strategy for first group will be discussed. Clearly the other two groups will incorporate amended versions of the strategies suggested for the first group. The concept remains the same - the detail changes – happy to share those upon request.

The CHEST Concept

Many people operate from one account because it is easy to operate and manage. However, what often happens is that the money flows in at the beginning of the month and by the date of the next paycheque there is not much left. Another adage states:
"We live what we earn." Often there is no reserve to handle unforeseen events.
It is quite difficult to keep track of everything if all the monies are kept in one account

The SILO Concept

This concept incorporates the strategy that monies must be allocated into various compartments/silos to meet different needs and goals which could occur:

- monthly,
- annually or
- ad hoc.

Commentators suggest using three silos to organise our finances will help us to plan and manage our financial needs and goals, which could differ vastly from each other, like money to fix a blown-up geyser compared to money for an annual holiday. The money kept in these "silos" should be kept totally separate from the account where you receive your income and pay expenses, i.e., "the chest under your bed".

They can be referred to as your:

A. Short,
B. Medium, and
C. Long Term goals/needs.

SILO C - Long Term – or "Retirement Plan Fund"

- While a person is in employment or running your own business, you should plan to put away a minimum of 10% of your gross income[2] into this silo, it should be more.
- The money in this silo should be invested in some form of retirement funding, which includes: Retirement Annuities[3], Pension Fund, Investments[4], Property Investments. *(Note: paying the bond on your house where you live, should be excluded, because if*

you did not own a property you would have to pay rent for accommodation, so view it as rent. When you sell it one day you will to need either buy something else to live or invest the proceeds to pay for your accommodation)

- This money you do not touch, other than re-balancing [5] your investment portfolio[6].
- Invest in “growth assets” that matches your risk profile [7].
- **Critical Factor:** Watch the growth of your investments (and FEES[8]) in these vehicles very carefully to ensure they at least grow above inflation and other key indicators[9].

<u>Silo A – Short Term or “Emergency Fund”</u>[10]

- In this silo you should invest no less than a minimum of R500 per month (should be more) and have the money in a “close to cash” [11] interest bearing facility, in order to pay for “unpleasant financial surprises”.
- We have all lived long enough to know what these are:
    - Medical Expenses and Co-Payments [12],
    - Annual fees of some kind
    - House and Car Repairs, Maintenance and
    - Emergencies such as losing your job or being retrenched and consequently with no income stream, and
    - the list goes on.
- Many commentators suggest that you have at least 6 months “cover” to carry yourself financially through any of these “unforeseen unpleasant surprises”.
- My suggestion would be:
    - review your monthly budget[13] to determine your monthly expenses amount,
    - then calculate the amount required to “cover” yourself for <u>no less than 3 months (more if you can)</u>
    - thereafter divide that amount by 24 months, that answer will provide you with the monthly amount you should invest in Silo A.
    - Remember, this is over and above the min. 10% into your Retirement Funding.
    - Example: R24000 Exp. X 3 months = R72000 divided by 24 = R3000 pm

<u>Silo B – Medium Term or “Nice to have’s Fund”</u>

- In this silo the strategy is very easy.
- When Silo A reaches its goal, then invest the amount you invested in Silo A into Silo B
- The funds in silo B can then be used for those “nice to have’s” and treats for the family, like “special toys” and holidays etc.
- Should an unpleasant surprize occur, then divert the funds back into Silo A until you have topped up Silo A again, then resume investing in Silo B.

Conclusion

- Having a financial plan and strategy as suggested in place could potentially alleviate quite a bit of stress and possibly unnecessary hardship.
- Plans and strategies must be regularly reviewed and amended as circumstances dictate to navigate your finances towards your goals and dreams.
- The outcome of your investments WILL VARY from your plan, it could be worse or better than your plan, but by taking ownership of your financial plan,
  you can make changes to align it to your goals.

We invite you to engage with us should you require any further information – please see email address above.

Note

From next month we will publish a list of DEFINITIONS AND EXPLANATIONS *of financial terms, for example see Co-Payments[12] (denoted by superscript - 12) mentioned in this article. This list will be updated each month.*

Definition/Explanation

A co-payment is a fixed amount that a medical aid scheme requires you to pay for a specific medical treatment, procedure or when admitted into hospital. With increasing private healthcare costs, co-payments have become larger and more common. It is usually payable upfront.

Disclaimer

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