THE FINANCIAL SERVICES BOARD

SAVING
South Africa has one of the worst savings rates in the world. According to Equinox, South Africa only had a gross saving rate of 15.4% of the gross domestic product in 2008. South Africa compares poorly to China with a gross saving rate close to 50%, India at about 30%, Brazil at around 25% and Australia at 22.5%. Gross savings include corporate, government and household saving. The picture is far worse when we look at household saving. According to the Deputy Finance Minister Nhlanhla Nene, the ratio of household saving to household disposable income remained negative at 0.1% in the first quarter of 2009. In Ghana, for example, it was found that the average household in the rural areas saved over 30% of their income (Aryeetey and Udry, 2000). The most recent Statistics SA survey indicates that only an average of 2% of household spending goes towards savings and investments. Don't these shocking statistics support the finding that only 6% of South Africans are financially independent when they retire? The other 94% are usually dependent on their families, friends and government. Do you want to be part of that 6%?

What is saving?
Saving means different things to different people. To some, it means putting money in the bank. To others, it means buying shares or contributing to a pension plan. However, saving means one thing – spending less than what you earn now in order to have more in future. Saving is all about discipline and spending less than you earn. It also means adjusting our lifestyles so that we can accommodate part of our income into a savings scheme.

Why is it important for us to save?
No matter who **you** are, saving some money every month is important to stay out of financial trouble. For a good future, a future of hope, you need to put away some of the money you earn now – **you need to save!** For some of us, saving simply makes it possible to provide our families with shelter, food and other basic needs in times when we have no income at all. But it is especially important to save for your **old age.**

Saving can make a lot of things possible, e.g.:
- paying for your **child's education**
- buying your **own house**,
- buying a **car**,
- starting a **small business**, etc.

Example:	Buying a lounge suite
Scenario 1:	Saving for a year and buying it for the **Cash Price** of **R6 499.95**
Scenario 2:	Buying it on **terms/Hire Purchase** over 36 months R315 X 36 = **R11 340** (interest rate of 11% p/a)

What are the different saving terms?
1. **Short-term saving** – means saving for a **few months to a year** to buy the things we want soon ,e.g. buying a lounge suite.
2. **Medium-term saving** – means saving for a period of **between 3 and 5** years for things we would like in the **years ahead**, e.g. paying for the education of our children.
3. **Long-term saving** – means saving for a long time over a period of **between 5 and 20 years** to prepare for the **future.** Some types of **insurance policies** provide a means for long-term savings.

What are the different ways to save?
1. The savings club (stokvel) method
Savings clubs or stokvels, are also sometimes known as **burial societies** or **lekgotlas**. They are a good way to save money if you live far from the nearest town or bank.

Advantages of savings clubs
- They are familiar and **easy to understand**.
- You usually know and **trust** each other.
- You take turns to get the savings, as a **lump sum**.
- You know when it will be your turn to get the money, so that you can **plan/budget** what to spend it on.
- The other club members usually live close by, or meet regularly, so **transport** is not a problem

Disadvantages of savings clubs
- Most savings clubs do not have written **rules or contracts**. They are based on trusting each other which is not always good enough!
- You have **no protection** if your money is stolen. There is a risk of other members not paying (defaulting).
- In some cases **interest** may not be earned.

Tips: Choose *your savings club* ***carefully****.*
Never give your money to a ***stranger*** *who promises to start a new savings scheme.*
Save only with people you ***know and trust****.*
Ask the ***banks for information*** *about their services offered to stokvels or savings clubs and for advice on investing you savings.*

2. The **bank method**
This is a very **safe** way of saving your money' for example, a savings account, a 32-day fixed deposit account and money market accounts. Banks have **rules** which protect you and your money from being stolen. Banks also have a duty to help us with information. You have the **right** to go into any bank and ask the financial advisor to explain what services it can offer you, including those offered by other financial institutions.

What are the main services offered by banks?
In the main, banks provide us with the following services:
- they get **deposits** (savings) from us,
- they do **transactions** for us, e.g., cash cheques, pay credit and debit card purchases, etc.
- they **lend** us money.

Tips on choosing a bank: *Choose a* ***reputable bank*** *that can meet you needs.*
Choose a bank with ***friendly, helpful and knowledgeable staff*** *that are willing to provide you with accurate information and help you with the right products and services.*

3. Investments
There are many types of investment which **build up capital or provide a monthly income** when you retire. Such investments include **retirement funds, shares, long-term insurance and fixed property**. Whenever you are ready to plan your investment strategy, one of your first stops may well be your bank. Bank personnel are professionally trained to provide good advice on different forms of investments. They will also be able to refer you to a reliable insurance broker, if you do not yet have one.

Investment Tips:
- *Don't invest with just anybody.* ***Choose and evaluate*** *one or several intermediaries/brokers before you make an investment.*
- *Check the* ***reputation*** *of the intermediary with the* ***firm*** *and the* ***Financial Services Board*** *and interview some of the broker's existing clients to determine his/her reputation.*
- *Make sure the broker and the company are registered with the* ***Financial Services Board.***
- ***Shop around*** *for the best returns before investing your money.*
- *Do not sign any blank or* ***partially completed application forms – Don't be pressurised to sign!***
- *Avoid cashing in a retirement fund if you change your job – but if you do, transfer the money to a* ***preservation fund****.*

What are the different savings options you have with banks and other financial institutions?

1. Savings account
- You can open a savings account with a bank
- Small amounts can be deposited into the account
- You earn interest on your money
- You can get your money back immediately when you need it
- You pay bank charges, but no commission
- You must keep a minimum amount in your account in order to keep it active

2. Fixed deposits
- You can put your money in a bank as a fixed deposit
- Small amounts can be saved as a fixed deposit
- You can choose the period for which you want to keep your money there
- The period can vary from 1 to 60 months
- Your money is very safe
- You must address a written request to the bank to get your money back
- You can use your deposit as security to borrow money from a bank or micro-lender
- You will receive interest on your money
- The interest is fixed and does not fluctuate with other interest rates
- You pay bank charges, but no commission

3. 32-Day notice accounts
- This account works in the same way as a fixed account
- If you want to withdraw money, however, you have to give the bank 32 days notice in writing

4. Money market funds
- A money market fund is a kind of a collective investment scheme
- The risk is very low, because you invest in the money market, not in the capital market
- You can deposit small amounts into this account each month
- You earn interest on your money, which is therefore taxable
- You can get money within 24 hours, if you need it
- It is suitable for older people who need a monthly income
- Other people can use this for a very short period, or when interest rates are very high

5. Endowment policy
- You can invest a small monthly amount or a large lump sum in this policy
- You pay commission to the broker who helped you to invest
- If you call up your policy within five, years you pay tax on your money, but after five years it is tax free
- You can also add life cover to the policy
- If you are short of money, you can stop your monthly payments temporarily or borrow against your policy, or offer the policy to the bank as security for a loan

6. Life policy (long-term insurance)
- Take out a life policy when you are young and healthy – your monthly payment (premium) will be much lower, for a large amount of life cover
- This policy will protect you against many financial risks
- A life policy can help you pay off debt after your death
- You pay commission to the broker who helped you
- You can also borrow against your policy or cede your policy to a bank in order to secure a loan
- Immediately take out a life policy when you buy property or start a business

7. Retirement annuity
- This is an investment for your retirement
- You can invest monthly, yearly or put down a lump sum
- You cannot use the money before the age of 55
- A portion of your premium is tax deductible
- Your creditors cannot lay claim to this investment
- You can invest up to the age of 69 and 11 months
- After the age of 55 years, you can withdraw one-third as a lump sum and two-thirds must be invested in a compulsory annuity (a monthly pension)
- You can add life cover and disability to your annuity

8. Collective investment schemes
- You indirectly invest in shares on the Securities Exchange (it includes unit trusts, bonds and money market funds)
- You can invest small amounts, or a larger lump sum
- You can stop your payments at any time, cash in your investment when you need it, or leave it there until later
- You earn dividends or interest on your money which you could reinvest in order to increase the value of your investment

9. Shares
- Shares are direct investments on the Securities Exchange
- There is risk involved
- There is no guarantee that you will get the full value of your money back
- You buy a right to the profit of a company which pays you dividends

10. Off-shore investments
- You can invest in all these types of savings and investment products overseas too
- Ask your broker to help you
- You will have to fill in forms from the Reserve Bank
- Because of the low value of the Rand, your investment will be worth much less in a foreign country
- Be aware of currency fluctuations when making your investments

11. Fixed property (real estate)
- You can invest in a second property for income and capital growth
- You can rent it out if you find a suitable tenant
- You will pay tax on the rental income you receive from your tenant
- You can also invest in shops, office space and industrial property

12. Stokvels
Suppose five people contributed R100 a month to the stokvel, in order to receive R500. Every month a different person receives the R500. Each person must budget for his/her contribution of R100 per month. They will receive no interest on their money, but it disciplines them to save. NASASA (National Stokvel Association of South Africa) is the official Body representing registered stokvel members.

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