

Personal Financial Planning

Financial Independence means...

you are able to survive financially on your own investments after retirement.

Fewer than one out of ten people retire financially independent.

The long-term goal of personal financial management is financial independence at retirement.

Personal Financial management is the field of study that affects all people

Personal financial skills are probably the most important life skills one can possess

Persons with this knowledge and skills can also "transfer" it to their children

People confuse investments with personal financial planning.

The measurement and assessment of personal financial performance.

Principles involved in drawing up a budget

- Involvement of family members
- A proper administrative system
- Good communication
- A realistic budget

Advantages of a personal budget

- improves financial discipline
- reduces financial conflict.

Limitations of a personal budget

- based on assumptions
- success of the budget depends on people
- based on forecasts

Over-budgeting and under-budgeting are both useless and negative

Over-budgeting means estimating income too high and expenses too low.

Time Value of Money Calculations

* Calculate Monthly Bond Installment:

Monthly indicates 12 periods $\boxed{12}$ $\boxed{2ndF}$ $\boxed{P/YR}$

\boxed{PV} = Value of mortgage bond
 $\boxed{I/YR}$ = interest rate per year
 $\boxed{2ndF}$ $\boxed{xP/YR}$ = period in years.

To get answer, press \boxed{PMT}

* New instalment if interest rate changes:

Store previous information $\boxed{\rightarrow M}$

$\boxed{I/YR}$ = new interest rate

press \boxed{PMT}

* New instalment if bond period changes:

$\boxed{\rightarrow M}$

$\boxed{2ndF}$ $\boxed{xP/YR}$ after new period entered

press \boxed{PMT}

* Capital/Interest/Outstanding Balance amortised by the n^{th} instalment

Step 1: Work out monthly instalment (see above)

Step 2: enter value for n^{th} instalment, press \boxed{INPUT} then $\boxed{2ndF}$ \boxed{AMORT} $\boxed{=}$

Gives \rightarrow Capital

Press $\boxed{=}$

Gives \rightarrow Interest

Press $\boxed{=}$

Gives \rightarrow Outstanding Balance.

Starting a business: entrepreneurship

Financing a business would normally include the following:
a family business - own capital
a new business - equity as well as borrowed capital

The uses of and reasons for a business plan are:
financing and capital can be obtained

Credit Planning

The goals of the Credit Act are:

- To protect the consumers of credit against reckless lending practices by the providers of credit.
- To prevent over-indebtedness by the consumers of credit
- To protect the payment history of consumers
- To inform consumers about the cost of credit.

The Credit Act will help consumers to

Make informed borrowing decisions

Escape the debt jail

Prevent negative marketing practices by the suppliers of credit.

The National Consumer Tribunal

listen to consumers' complaints about credit providers

A Credit Bureau

accumulates information about the credit history of consumers.

Estate Planning

Strategies to reduce the value of your estate may include...
buying further fixed assets in the name of your children
donating money to your spouse.

To implement the estate plan means to...
draw up the will, insurance and investment documents.

The number of steps during the administration of an estate depend on
the estimated value of the estate
whether the estate is solvent/insolvent

Legal requirements for setting up a trust...
see below ①

Estate Planning includes
an investment in unit trusts
an investment in a life insurance policy
taking out short-term insurance
drawing up a legal and valid will

Example of an estate planning pitfall...
insufficient liquid assets for transferring your estate

Fideicommissum is a testamentary bequest to a person on condition that the
bequest goes to another person after that person's death.

A testamentary trust enables you after your death to pay estate duty, among other
things, out of the proceeds of a life insurance policy.

In a will, the right to let a house is called a usufruct.

People with fixed property should not bequeath their life policies to other people.

The donation agreement must be contained in a written deed of trust. ①

A life policy...
can be used to pay estate duty
can be used as part of a divorce settlement
used to obtain a loan from abt
can be used in a debt crisis

People mainly create a Trust to save on estate duty.

Income received from an R.A. is exempt from estate duty.

Assets with capital growth are usually placed in a trust.

Investment Planning

Example of an investment planning pitfall...

Comparing the return of an investment with the purpose of the investment

A compulsory annuity may be a traditional annuity or a modern, flexible annuity.

The most important investment criteria are...

Income	Liquidity	Return	Transaction costs	Control
Growth	Taxability	Amount	Timing	Diversification
Safety of Capital	Ease of Management	Term of Investment	Knowledge/Management	Requirements
Flexibility	Risk	Investor's tax rate	Protection against inflation	Investors' objectives.

Endowment insurance, the insured amount is payable...

At the end of the specified term

At early death

At a specified age.

A life policy can be used for...

protection planning

credit planning

career planning

retirement planning.

A life policy can be used...

in a divorce settlement

to obtain a loan from a bank

in a debt crisis.

Benefit of money market fund...

capital is very safe

Money market funds...

invested on the money market

bear higher interest than 32 day notice deposits.

An advantage of provident fund membership is the fact that...

members get back what they invested

An advantage of a pension fund membership is the fact that...

monthly contributions are partly tax deductible.

A bank acceptance is issued by a bank and a treasury bill is issued by the state

Bank acceptances, treasury bills and negotiable deposit certificates are negotiable.

Investment Planning Pitfalls

making an investment decisions without knowing = your personal financial situation

- how to choose a broker

- your household risks.

Gambling is an investment in shares

Buying a Residence

When a man owns immovable property and enters into a marriage in community of property, his wife becomes a joint owner immediately on conclusion of the marriage.

The value of a dwelling is ...
increased by its exposure network. (or reduced)

The cost(s) payable by a natural person for a house purchased always includes ...
Transfer duty (> R600 000 purchase price)
Conveyance fees

An option ...
must be accepted in writing
when an option to purchase is taken up, the owner of the property must sell it to the holder of the option.

A "cooling off period" for house purchases
can have negative financial consequences for sellers

Conveyance costs are levied by the transfer attorney of the property

Bond registration costs are paid to the attorney of the financial institution.

Obtaining a bond is an example of a suspensive condition
when a suspensive condition is fulfilled, a valid contract arises
If a factory is erected (as a resolutive condition) a contract lapses

Retirement Planning

The Retirement Income Gap refers to...

the difference between your income before retirement and your pension from your employer after retirement
the amount of additional investment you need to supplement your retirement income from your employer's retirement fund.

Unemployed children might threaten your retirement

Assessing household expenses during retirement is part of retirement planning.

To maintain the same standard of living as before retirement can be a retirement objective.

An advantage of a pension fund membership is that...

decreasing term life insurance can be included at a low cost
monthly contributions are partly tax deductible.

Similarities between a defined benefit pension fund and a defined contribution provident fund...
benefits cannot be seized.

Retirement planning pitfall...

the absence of investments which lead to income X Spending all your money without invest
for retirement

In the case of a defined benefit pension fund, the employer bears the risk

With a preservation fund, money may be withdrawn only once before retirement.

? Disability cover may be added to a retirement annuity.

Provident Funds...

it is not possible to buy years of service

a member can take all benefits in the form of a single lump sum

Advantage = members get back what they invested