the money guide

7 steps to financial health

Everything you need to know and do, from setting goals to making your savings grow.

CAPITEC

contents

The more you understand money, the better you can use it to build the life you really want. This booklet is designed as a guide to get you started on this journey.

how to be financially healthy

Being financially healthy isn't about how much money you earn. It is about how you use your money to build more security and freedom into your life.

4 key elements of financial health

Security

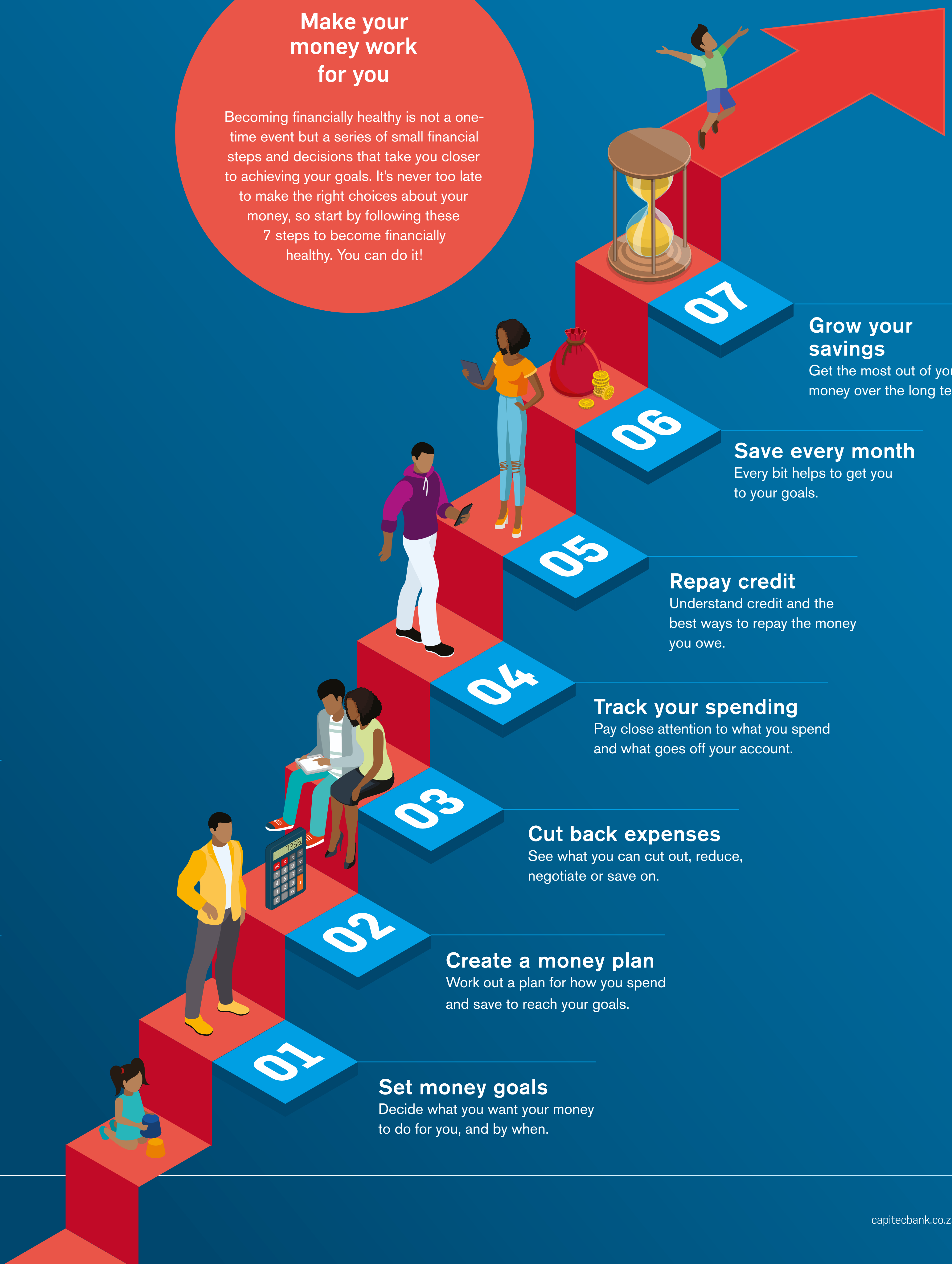
1. **Control your daily and monthly spending.** In other words, spend less than you earn.
2. **Ability to cover financial shocks,** such as major repairs, a temporary job loss or a medical emergency, without getting into debt.

Freedom

3. **Ability to work towards your financial goals,** like saving for a holiday or retirement.
4. **More freedom to make choices,** such as changing jobs or taking up a hobby.

Make your money work for you

Becoming financially healthy is not a one-time event but a series of small financial steps and decisions that take you closer to achieving your goals. It's never too late to make the right choices about your money, so start by following these 7 steps to become financially healthy. You can do it!



01 Set money goals
Decide what you want your money to do for you, and by when.

02 Create a money plan
Work out a plan for how you spend and save to reach your goals.

03 Cut back expenses
See what you can cut out, reduce, negotiate or save on.

04 Track your spending
Pay close attention to what you spend and what goes off your account.

05 Repay credit
Understand credit and the best ways to repay the money you owe.

06 Save every month
Every bit helps to get you to your goals.

07 Grow your savings
Get the most out of your money over the long term.

STEP 01

set money goals

To begin any journey right, you need to know where you're going. That's where your dreams and goals come in.

The difference between dreams and goals

What are your biggest dreams for your life? To build a home for your family? Travel? Raise children? Find a job you love? Our dreams are the things that inspire us and bring us joy, even if they're not always what others expect us to do.

A dream, however, is just an idea if you don't have a plan for when and how you're going to make it happen. Setting clear money goals helps you to take control of your dreams.

Set your goals

You are in control of your money. Decide what you want and when you want it by.

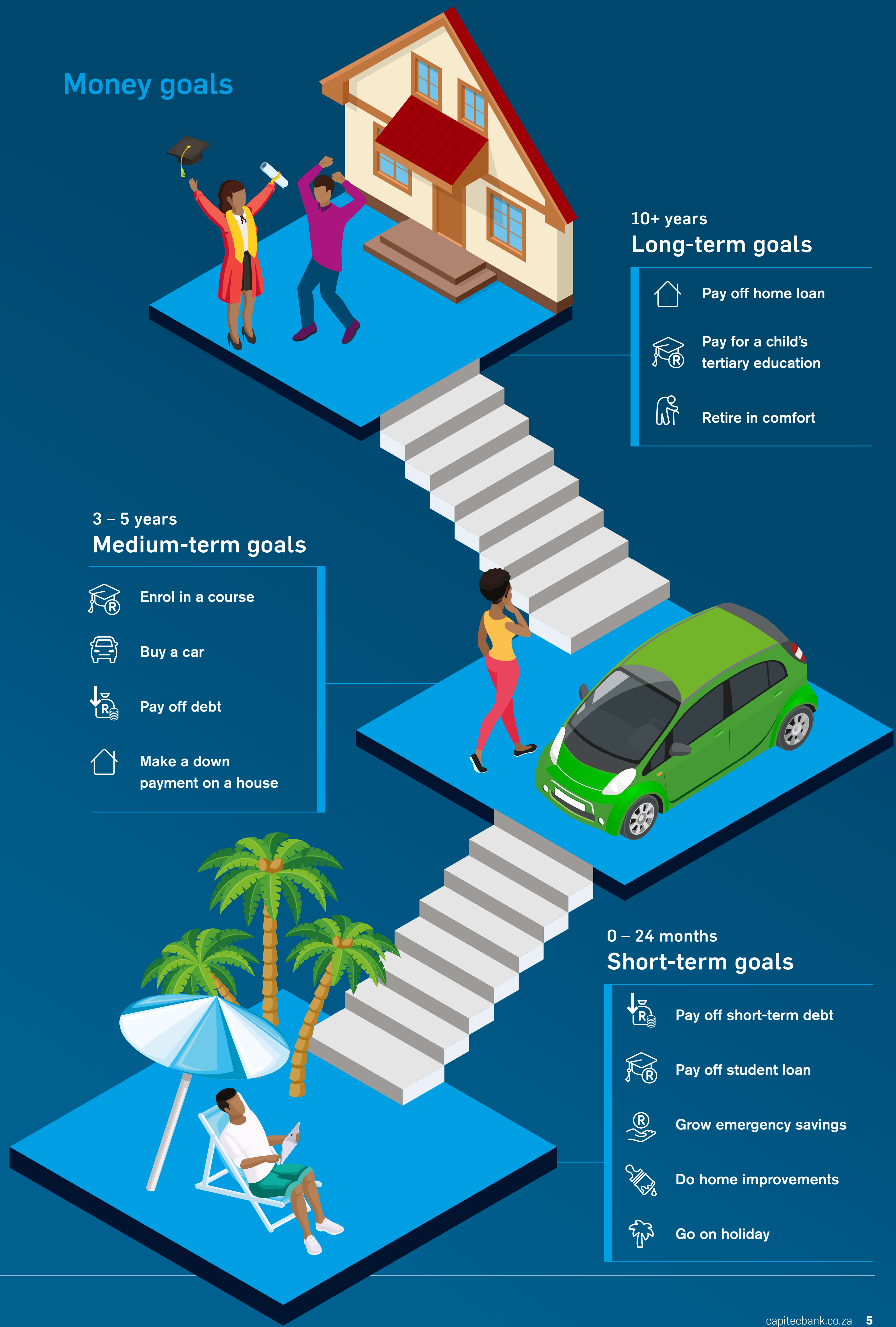
To help you achieve your dreams, make sure your money goals are SMART goals:
Specific
Measurable
Achievable
Realistic
Timely

General goals
"I'm going to save up to buy a computer," or "I'm going to pay off my home loan faster."

SMART goals
"I'm going to stop smoking and save R600 a month (**measurable**) to buy a refurbished second-hand Lenovo computer (**specific** and **realistic**) in 5 months' time (**achievable** and **timely**)."

"I'm going to pay R200 extra (**measurable** and **realistic**) into my bond every month (**specific**) to pay off my home loan in 18 years instead of 20 years (**timely** and **achievable**)."

Money goals



10+ years
Long-term goals

- Pay off home loan
- Pay for a child's tertiary education
- Retire in comfort

3 – 5 years
Medium-term goals

- Enrol in a course
- Buy a car
- Pay off debt
- Make a down payment on a house

0 – 24 months
Short-term goals

- Pay off short-term debt
- Pay off student loan
- Grow emergency savings
- Do home improvements
- Go on holiday

Identify your priorities

Break goals into short-, medium- and long-term actions. This will help you to see what needs to happen first.

0 – 24 months
Short-term goals

Examples: Pay off short-term debt or a student loan, grow emergency savings, get married, do home improvements, buy furniture

3 – 5 years
Medium-term goals

Examples: Save for a university education, buy a car, pay off debt, put down a deposit on a house

10+ years
Long-term goals

Examples: Pay off your home loan, pay for your children's university education, have enough savings to retire

STEP 02

create a money plan

Just like you need a building plan to know where each brick goes when building a home, you need a money plan to help you take control and work towards your goals.

How to get started

1. **Work out your total income**
   Add up your regular income (salary, rental or other predictable income). This is how much money you have to work with each month. Don't include income that isn't guaranteed (like a bonus or irregular overtime) in your monthly budget.
2. **List all your expenses**
   Study your bank statements and receipts to see exactly where your money goes each month. Write down everything. Every. Little. Thing.
3. **Put your expenses into categories**
   Decide which expenses are essential (needs), and which you could live without (wants). You can also divide your expenses into fixed (expenses that stay the same each month, e.g. rent and insurance) and variable (expenses that change each month, e.g. food and electricity).
4. **Review and reduce**
   To increase your savings (or repay your debt quicker), you need to understand your current spending habits and plan where and how to spend less.
5. **Automate**
   Set up automatic payments for savings and debt to go off your account on payday. This way you can't impulsively spend the money you planned to save.
6. **Keep track**
   Track your purchases to see if you're sticking to your plan. If you indulge one week, cut back the next. Adjust your budget where necessary.

Meet Mandla and Thandiswa

Mandla (30) and Thandiswa (28) are a married couple who have 2 children in primary school. He earns a take-home salary of R15 000 per month – this is after his retirement fund contribution, medical scheme contribution, tax and UIF have been deducted. Thandiswa earns R7 000 per month after deductions. She does not contribute to a retirement fund through her employer.

Mandla pays off R1 500 per month on a 48-month personal loan, which he took up just more than 2-and-a-half years ago to finance 50% of the purchase price of a car. He had saved for 3 years until he was able to pay 50% of the purchase price of a reliable second-hand car. He has a credit card with a low balance and repays R200 per month. Thandiswa does not have any debt.

Mandla is in a lift club with 3 people, but for one week of the month he travels to and from work in his own car. Thandiswa and the children make use of public transport for work and school. Thandiswa's mother, who is a pensioner and lives near them, takes care of the children after school. They pay her R1 000 per month.

How Mandla and Thandiswa drew up their money plan

1. **They calculated their total income**

Mandla's salary	R15 000
Thandiswa's salary	R7 000
Renting out a room	R500
Selling sweets	R1 000
Total	**R23 500**

2. **They listed all their expenses**
They studied their bank statements and receipts to see where their money goes each month, and made a list. They added the monthly total for different spending groups (e.g. groceries) to the "Current" column on their money plan.

3. **They separated their expenses into fixed and variable categories**
Fixed expenses are regular payments that remain the same. Variable expenses go up or down from month to month.

4. **They reviewed and reduced their spending**
After reviewing their current spending, they planned where to cut back so they can increase their debt repayment and savings contributions. They added all of their new spending targets to the "Planned" column on their money plan.

5. **They automated payments**
To make sure they stick to their new targets, they set up automatic payments for their debt and savings contributions. These will go off their accounts on payday.

6. **They will track their expenses**
In future, Mandla and Thandiswa will track their monthly spending to check if they're sticking to their new targets. They'll record their actual spending in the "Actual" column on their money plan.

Their money plan

1 Income
R23 500

2 Basic needs

Groceries	R3 000
Clothing	R1 000
Transport	R1 400
Rent	R3 500
School fees	R2 000
Bank fees	R100
Childcare	R1 000
Electricity and water	R300
Total	**R12 300**

3 Financial protection

Life insurance	R500
Funeral cover	R100
Car insurance	R400
Total	**R1 000**

4 Debt repayment

Loan repayment	R500
Loan repayment	R1 500
Credit card repayment	R200
Total	**R2 200**

5 Savings & wealth creation

Emergency savings	R1 200
Retirement	R700
House deposit	R2 000
Total	**R3 900**

6 Lifestyle spending

Entertainment	R1 000
Cellphone	R600
Total	**R1 600**

7 The bottom line

Total income	R23 500
Total expenses & savings	R21 000
Surplus	R1 500

Your money plan

Income	Current	Planned	Actual
Salary	R	R	R
Other income	R	R	R
Total	**R**	**R**	**R**

Basic needs	Current	Planned	Actual
Groceries	R	R	R
Clothing	R	R	R
Transport (public transport, car maintenance, fuel)	R	R	R
Rent	R	R	R
Medical expenses	R	R	R
School fees	R	R	R
Bank costs	R	R	R
Levies	R	R	R
Rates and taxes	R	R	R
Childcare	R	R	R
Family support	R	R	R
	R	R	R
Total	**R**	**R**	**R**

Financial protection	Current	Planned	Actual
Car insurance	R	R	R
Home and contents insurance	R	R	R
Disability insurance	R	R	R
Funeral cover	R	R	R
Total	**R**	**R**	**R**

Debt repayment	Current	Planned	Actual
Loan repayment	R	R	R
Credit card repayment	R	R	R
Vehicle repayment	R	R	R
Home loan	R	R	R
Total	**R**	**R**	**R**

Savings and wealth creation	Current	Planned	Actual
Retirement contributions	R	R	R
Emergency savings	R	R	R
Education	R	R	R
Investments	R	R	R
Stokvel	R	R	R
	R	R	R
Total	**R**	**R**	**R**

Lifestyle spending	Current	Planned	Actual
Holidays	R	R	R
Entertainment	R	R	R
Cellphone	R	R	R
TV licence/DStv	R	R	R
Furniture account	R	R	R
Clothing account	R	R	R
	R	R	R
	R	R	R
	R	R	R
Total	**R**	**R**	**R**

Income
R

−

Basic needs
R

−

Financial protection
R

−

Debt repayment
R

−

Savings and wealth creation
R

−

Lifestyle spending
R

=

Surplus or shortfall
R

STEP 03

cut back expenses

Now that you've written down everything you spend, you can start to plan where to cut back.

How to start reducing expenses

Cancel any services you don't use regularly
Give up paid memberships or subscriptions you are not using on a regular basis any more.

Negotiate where you can
Speak to your insurer to see if you could get the same cover for less, or ask for a different cellphone package. Do this with all your service providers, including your landlord any time you renew your lease. Make regular review and negotiation a habit.

Make saving a group thing
Shop with family or friends to make use of savings on bulk deals.

Try more entertainment at home
You have more control over your spending when you relax at home, so instead of going out, invite friends over to your house.

Talk to your family
Be honest about your financial position and what you can and cannot afford.

3 tips for cutting even more costs

1. **Use your debit card** to pay for purchases whenever you can – this way, you pay no bank fees.
2. **Do cellphone banking.** Transactions on your cellphone banking app cost less than transactions at a branch or ATM.
3. **Draw cash at supermarket tills.** The cheapest way to withdraw money is to request cashback at a Pick n Pay, Shoprite, Checkers or Boxer till.

How Mandla and Thandiswa cut back their expenses

It's the small smart moves that can have a big impact. Here are just a few ideas for ways to spend less so you can save more.

They spoke to their insurer and negotiated a better deal on their short-term insurance.

Instead of drawing cash at ATMs 3 times a week, they now swipe their debit cards.

They started to shop with Thandiswa's mother and her neighbour to take advantage of bulk and 2-for-1 deals.

Instead of buying lunch on the days that he goes into the office, Mandla now packs a sandwich and a fruit for lunch.

They talked to their children about what they can and cannot afford.

STEP 04

track your spending

Your bank statements, receipts and banking app let you track your spending to see if you kept to your budget and to help you make changes where needed. Keep working at it and adjust your plan as things change.

Tracking your spending helps you to:

See where your money is going

Identify your spending habits

Prioritise your wants and needs

Spot incorrect deductions quickly

Stay within your budget

Adjust your budget where needed

Tools for tracking your spending

Our money plan template (on page 10)	A daily money diary	A banking app	A spreadsheet

Tip: Automating your budget is a good way to help you save time on tracking and ensure that you keep to your targets – do this by setting up recurring automatic payments that deduct your savings contributions from your account on payday.

Make it a habit

1 Daily

Keep receipts. You can take photos of your receipts with your cellphone for easy reference and storage.

2 Weekly

Use your banking app for quick reference on transactions. Check in throughout the month and make adjustments to keep within your targets. If you're overspending in one category, cut back in another.

3 Monthly

Review your bank and store card statements.

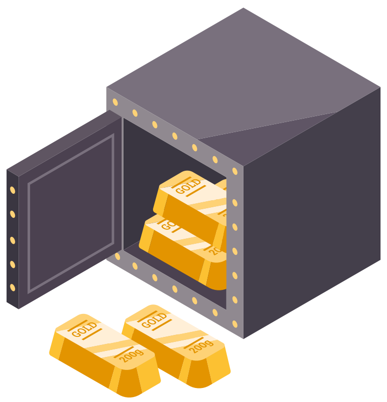
Add up all your spending at the end of the month.

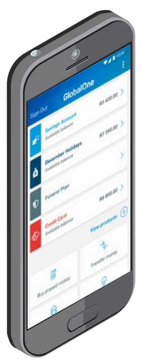
If you find you keep overspending in some areas of your budget every month, adjust your budget so it is more realistic. Your expenses will change over time and your planning needs to be updated accordingly.

4 Annually

Do a thorough review of your expenses. Look at your fixed costs, too. It is possible, for example, to renegotiate your car insurance because your car decreases in value over time.

Tip: Review all your expenses and your budget each time you get an annual increase. You can save a lot if you increase your debt repayment and savings allocations by the same percentage as your increase.





How banking works

In the beginning

The modern banking system can be traced to the 11th century, when Florence and Venice first became trading and finance hubs. Merchants transacted on wooden benches in public squares (the word “bank” originates from the Italian word “*banco*”, meaning bench). Some merchants needed a safe place to leave their gold, others needed to borrow money to buy goods – and so the banking system was born.

Merchants could leave their gold in a secure safety deposit box at a bank. The bank would lend this money to other merchants, and would charge them interest until the debt was repaid. The bank would share this profit with the depositor, paying them a portion of the interest charged on the loan.

As international trade developed, merchants needed to transfer money without the risk of moving it by land or sea. This brought about an innovation: book money – money which existed only as a written record of transactions and names.

Modern banking

Technology has transformed much of how banks operate today, but the system itself still operates on the same essential principles:

Banks allow clients to safely store money.

To attract these deposits, banks pay interest to clients.

Banks then use these deposits to lend money to other clients, charging a higher interest rate on loans than paid to depositors. This difference is where they make their profit.

Digital banking

We can now bank anywhere and at any time just by pulling a cellphone from our pocket. Transactions are communicated and recorded in real time by computers. Today, banking from your phone is one of the safest and easiest ways to bank.

How to start

USSD works on any cellphone

USSD, which stands for “unstructured supplementary services data”, allows you to use any cellphone to access the service.

Dial your bank’s USSD code to select the option you want.

No airtime? Dial your bank’s USSD code first to top up your airtime – your service provider allows this transaction free of charge.

Banking apps work on smartphones

They are free to download from the app store.

They are easy to use.

A large range of transactions and services are available at the press of a few buttons.

Digital wallets make payment easy

Masterpass™ by Mastercard® is an app that works like a digital wallet.

It is free to download from the app store.

It lets you pay in-store and online from your phone by scanning a QR code.

3 reasons to bank on your phone

1. **It’s convenient,** because it is available 24/7.
2. **It’s safe,** since you don’t have to queue at an ATM.
3. **It’s cheaper** to bank on your phone than at a branch.

Transactions you can do on your cellphone

Buy airtime, data and SMS bundles.

Buy electricity.

View account balances.

View last electricity token purchased.

Do credit facility transfers.

Pay Capitec Bank clients (who have a verified cellphone number).

Transfer money between your accounts.

Register for SMS Update for added security.

Send cash to friends and family.

Recurring payments

A recurring payment lets you make the same payment each month automatically, without having to think about it. Stop orders and debit orders are 2 methods of making recurring payments, and now there's a new type of debit order, called DebiCheck.

1. **A stop order** is a credit instruction you give to make a payment from your account and pass it to a third person, for example, paying your rent to your landlord. It's the same amount on the same agreed date every month for a certain period, and *you* decide when the payment stops.

2. **A debit order** is a convenient way for a third party – one that you've given permission to – to regularly collect money from your bank account. You agree to the amount and the date for collection. It's typically used to collect monthly subscriptions, insurance premiums or loan repayments.

3. **DebiCheck** is a new type of debit order designed to improve security and reduce fraud. Once you have entered into a contract with a service provider, you will be requested to confirm and approve the debit order with the bank and make sure that all the collections information is correct. If the debit order is approved, your bank will then check the information you gave before the debit order is processed each month. DebiCheck debit orders are only processed if the information (such as the date and amount) matches. If it does not match, the DebiCheck is rejected.

It's important to note that, because you have confirmed these DebiCheck debit orders, you will not be able to reverse the collection that matches the information on the register at your bank.

What to do if you suspect card fraud

1. **Contact your bank immediately** to prevent further losses. You can do this on your banking app or by visiting your nearest branch.
2. **Once a suspected case of fraud has been detected,** your account will be stopped immediately to prevent further illegal transactions.
3. **The incident will be logged** and a case file will be opened to investigate.
4. **Once the investigation is completed,** you will be contacted about the outcome of your case.
5. **Keep in mind** that you are responsible for keeping your PIN safe and secret. If you share it with anyone, you will be responsible by law for any losses suffered, and you may not be able to get stolen money back.

Banking safety

Cellphones

Never leave your **phone unlocked**.

Don't share your mobile banking or remote banking **PIN** with anyone.

Whenever possible, **make use of your bank's app** – this will always be **the most secure way to bank from your phone**.

Don't believe any SMSs claiming to be from your bank that ask you to confirm personal details, banking information, PINs or a transaction.

Bank cards

Don't share your ATM card **PIN** with anyone.

Ensure that **no one can see your PIN** when entering it at the ATM.

Never accept help from strangers at ATMs, even if they are friendly and well dressed.

Avoid ATMs that are dimly lit or surrounded by loiterers. And **never allow your children to draw money for you**, as they are most vulnerable to perpetrators.

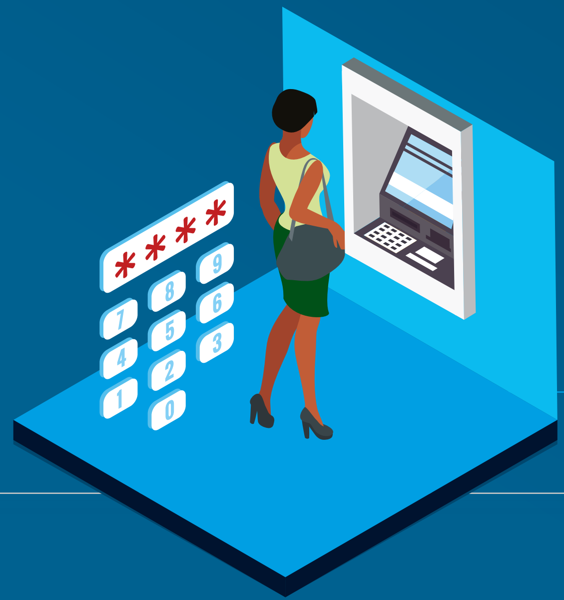
Follow the instructions on the ATM screen carefully.

Only enter your PIN when prompted to do so by the ATM.

Do not insert your card into the ATM **if the screen does not look familiar to you**, as it could have been tampered with.

Set a **daily withdrawal limit** that will meet your needs. You can always increase the limit on your banking app should you need to draw more cash than usual. This way you will protect yourself, should your card and PIN be stolen.

Contact your bank immediately if your card is lost or stolen, or stop it on the app or at your nearest branch.



PIN numbers

Keep your ATM and cellphone app **PIN safe and secret** – never share it with anyone.

Memorise your PIN; never write it down.

A bank, or any staff member of a bank, will never ask for your PIN, so **if anyone asks, be suspicious** and never share it.

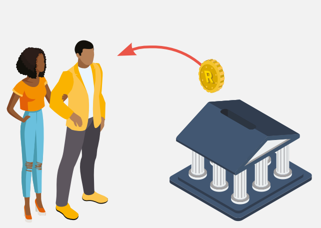
Don't save your PIN on your cellphone or in your wallet in case it gets stolen.

STEP 05

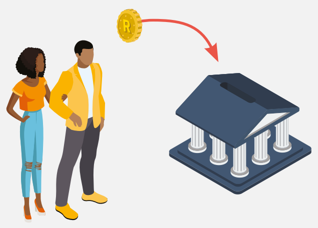
repay credit

Almost everyone uses credit at some point in their lives, so it's important to understand how to use it.

The difference between credit and debt



Credit is the amount a credit provider is willing to lend you. How you use credit will affect how much you are allowed to borrow in the future.



Debt is what you owe. This is money you have already borrowed and are paying interest on, for example, a credit card or home loan.

How debt works

When you borrow money, you don't repay only the money you borrowed. You also pay costs called interest and fees. These costs are what makes debt expensive, so it is important to use credit carefully and only when you can afford it. Some debt is more expensive than other debt. The higher the interest rate, the more it will cost you to repay it.

The total cost of credit

The total cost of credit is the whole amount you have to pay over the lifetime of an agreement.

Original amount borrowed + Interest charged + Initiation fee + Service fees + Credit insurance = Total cost of credit

Monthly instalment **x** number of months over which the money must be repaid **=** total cost of credit

Your affordability

Use your money plan to check your affordability.

Your income		Living expenses		Other payments		Affordability amount
R	-	R	-	R	=	R
Income after salary deductions such as tax, policies and medical aid. (If you have variable income, calculate the average net income received into your bank account for the past 6 months.)		Deduct all your necessary living expenses.		Deduct all other payment obligations such as existing debt repayments, insurance and savings.		This is the amount of money left to repay the credit. When you know how much money you can spend on repayments, you'll know how much credit you can afford. Remember that you may need to give up on certain wants when you apply for credit.

Find the best credit offer

1. **Know what you can afford.** You shouldn't have to compromise on any necessary living expenses, existing payment obligations and savings in order to afford the debt.
2. **Compare options.** Not all credit providers charge the same, so compare the options and decide what will work for you.
3. **Know the total cost of credit** over the full term of the agreement.
4. **Choose a registered credit provider** with a good reputation. They must comply with the law and respect and protect your rights as a consumer.

Good credit decisions

Credit can benefit you if it is used to invest in your future, e.g. paying for your studies, buying a car that is necessary for your work, buying a house or doing home improvements.

Answer yes or no to these questions

Is borrowing money the only way I can get what I need?

yes no

Is my employment and/or income stable?

yes no

Can I afford to repay the monthly instalment (after deducting living expenses, insurance and savings)?

yes no

Will I be able to repay the instalments on time, every time, until the full amount is paid off?

yes no

Do I know what my credit report looks like?

yes no

Do I understand the full amount I'll need to pay back when I add all the fees and interest?

yes no

If you answered "no" to any of these questions, you might need to rethink your decision to get credit.

Repaying credit

Repaying credit is often the fastest way to improve your financial health. This is because the interest you are charged on credit is usually higher than the interest you earn when you save.

If you can add even a little extra to your credit instalment each month, you will pay less interest over time and your debt will begin to decrease more quickly.

Different repayment options

Let's consider 3 payment scenarios for a personal loan of R100 000. In the example below, the interest rate is 20% and the term of the loan is 60 months (5 years). The minimum repayment each month is R2 649. All fees are excluded for these scenarios.

		Total borrowed	Total repaid	Months to repay
Scenario 1	Minimum repayment is paid every month for the duration of the loan.	R100 000	**R158 963**	**60**
Scenario 2	In month 6, the borrower misses a payment. From month 7, they reschedule the loan and the monthly repayment is reduced to R2 200 for the remaining duration of the loan.	R100 000	**R188 051**	**86**
Scenario 3	From the first month, for the duration of the loan, the borrower pays R500 more than the minimum repayment every month (R2 649 + R500 = R3 149 monthly repayment).	R100 000	**R143 541**	**46**

The smart way to repay: the snowball method

The snowball method is a debt-repayment strategy that focuses on repaying all your debts, starting from smallest to largest. Here's how it works:

1. List all your credit accounts and their balances, ordered from smallest to largest.
2. Keep paying the minimum repayments on all of your accounts.
3. Using your money plan to review your expenses, find an amount you can add to your debt repayments every month. Use this money to pay more than the minimum on your account with the smallest balance. Keep doing this until the account is paid off. Now, add that full repayment (the minimum plus extra amount) to the repayment on your next smallest debt. Keep repeating this step until all of your accounts are repaid.

You'll find that with each debt you repay, your progress on the next account will become faster – like a snowball rolling faster as it grows.

How John and Nandi can use the snowball method to pay off their debt

They have the following outstanding credit balances:

Account and balance	Minimum repayment	Interest rate	Months to repay
Clothing account: R2 000	R200	19.5%	11
Store account: R4 000	R400	19.5%	11
Personal loan: R12 000	R500	20.2%	31
Credit card debt: R18 000	R1 000	15.0%	21
Total owed: R36 000			

If they use their money plan and reduce their expenses so they have an extra R500 a month available, they can use it to make additional payments as follows:

Months 1–3
Increase the repayment on their clothing account by R500 to R700 per month. Their clothing account will then be fully paid off at the end of 3 months. They now have R700 a month.

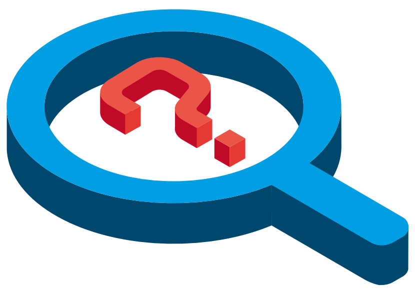
Months 4–6
Add the extra R700 to the R400 payment on their store account. For 3 months they'll repay R1 100 monthly on their store account until it is fully paid off.

Months 7–13
Add the R1 100 to the R500 repayment on their personal loan. For 7 months they'll repay R1 600 monthly until it is fully paid off.

Months 14–16
Add R1 600 to the R1 000 repayment on their credit card balance – repaying R2 600 monthly means it will be paid off in 3 months. They will be debt-free!

The final numbers

It will take John and Nandi **16 months instead of 31 months to pay off their debt,** and **they will save R2 219 in interest.** They will then have R2 600 per month to save towards their money goals.



Know your rights

Your rights under the National Credit Act

The credit agreement must be clear and easy to read.

A pre-agreement quote is valid for 5 days.

You are entitled to know why your credit application was unsuccessful.

Taking up credit with a registered credit provider means that you have protection against reckless lending.

Credit provider fees and interest are regulated.

You can get help if you are over-indebted.

You are entitled to one free credit report a year from a registered credit bureau.

The National Credit Regulator (NCR) can help you if you have any questions – call 0860 62 76 27.

Questions to ask about a credit agreement

How should I make payments, how many payments will I have to make, and what are the dates of the first and last payments?

How often will I receive statements, and how will they be delivered?

What are the fees and interest that I will pay?

How will my information be shared with credit bureaus?

How does the credit insurance work? In other words, how will my debt be covered in case I lose my job or otherwise become unable to earn an income?

What are my rights and obligations if I want to pay off my debt faster?

STEP 06

save every month

Putting a bit of money away every month helps you cope with whatever life throws at you, and gives you the freedom and security to make choices.

Why save?

Making saving a habit allows you to work towards your goals and dreams. It's not how much you earn, but the money you keep that can grow to help you reach your dreams.

Prioritise your savings

1 **Save for emergencies**
Sometimes we need extra money to deal with an unexpected event, like a medical emergency. It's recommended that you save enough money to cover between 3 and 6 months of household expenses to deal with an emergency without having to use credit or your long-term savings.

2 **Save towards retirement**
If your employer helps you to save for your retirement by deducting a percentage of your salary each month and investing it, don't cash out your pension when you change jobs. If your employer does not contribute on your behalf, speak to an FSCA-registered financial adviser to help you decide how to best save for your retirement.

3 **Save towards other goals**
Once you have the first 2 saving priorities in place, start planning and saving towards your goals.

Tip for saving smarter

Set up stop orders for your various savings goals at the start of the month so you're not tempted to spend the money on something else.

grow your savings

A savings account allows you to keep your money in a safe place and earn interest each month. This is how the bank rewards you for keeping your money with them.

Start earning interest

There are 2 kinds of interest – simple interest and compound interest – and it helps to know the difference.

How simple interest works

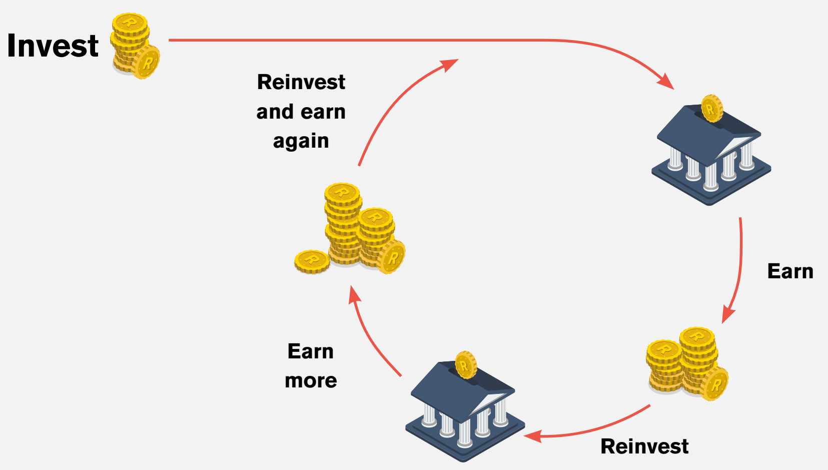
Simple interest is interest you earn only on the principal (original) amount that you deposited (or, in the case of debt, the amount that you borrowed). This happens when you withdraw the interest you earn.

Here's an example of how simple interest is calculated when you withdraw the interest you earn every year:

	Account balance	7% interest		Interest earned
Year 1	R1 000	x 0.07	=	R70
Year 2	R1 000	x 0.07	=	R70

How compound interest works

On the other hand, if you don't withdraw the interest you earn, you will start to earn **compound interest.** This is interest you earn on the amount you save *and* on all the interest you've earned. Each time you earn interest, the account balance gets bigger, and you will earn even more interest. This extra amount may seem small at first, but with enough time it creates enormous growth, as you'll see on the next page.



Here's what happens if you don't withdraw the interest you earn every year:

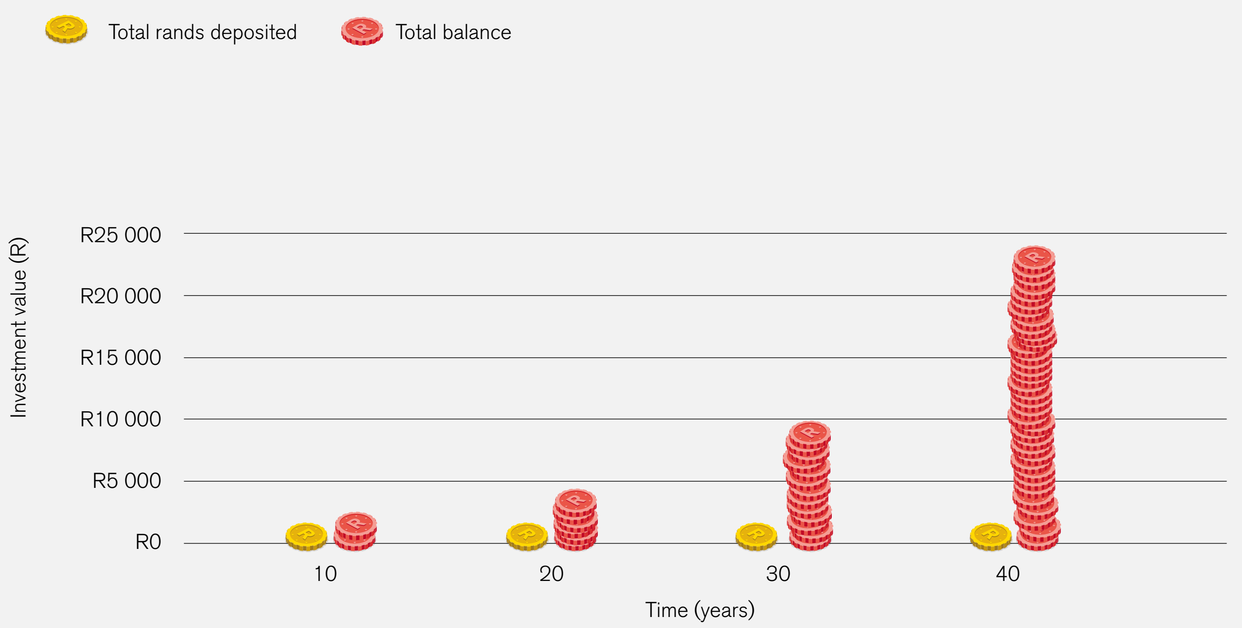
	Account balance	7% interest		Interest earned
Year 1	R1 000	x 0.07	=	R70
Year 2	R1 070	x 0.07	=	R74,90

How to turn R500 into R22 000

You deposit R500 into an account earning 10% interest a year, compounding annually. This means your total interest is added to your account balance once at the end of 12 months. You never withdraw the interest you earn.

After one year you would earn R50 in interest. In year 2, you will earn interest on R550, so you will earn R55. Your total at the end of year 2 will be R605.

End of year	Total rands deposited	Total balance
10	R500	R1 297
20	R500	R3 364
30	R500	R8 725
40	R500	**R22 630**



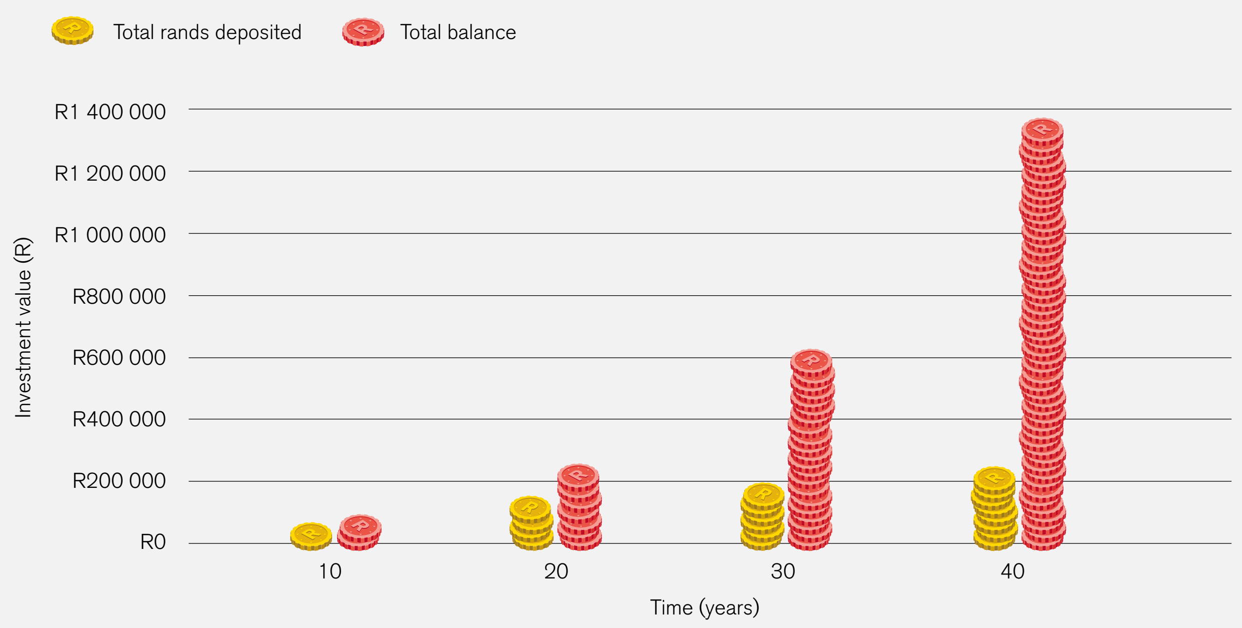
Actual interest rates vary depending on a number of factors, including the type of account you save in, your opening balance, the interest rate offered at the time and the length of time you invest for.

How to become a millionaire by saving R500 a month

The longer you can leave your savings, the bigger they will grow. Never think you have too little to bother saving.

The growth may not seem like much at first, but over time compound interest can make seemingly impossible dreams achievable. As you can see from this example, if you can give it long enough, time will contribute more money to your savings than you will.

End of year	Total rands deposited	Total balance
10	R60 000 (R500 x 120 months)	R96 542
20	R120 000 (R500 x 240 months)	R260 463
30	R180 000 (R500 x 360 months)	R609 969
40	R240 000 (R500 x 480 months)	**R1 312 407**



Actual interest rates vary depending on a number of factors, including the type of account you save in, your opening balance, the interest rate offered at the time and the length of time you invest for.

word list

Stuck on a bit of jargon? Here are some brief explanations of commonly used money words.

Interest and inflation

Interest
Interest is the cost of using someone else's money. When you borrow money, you pay interest. When you save money, you earn interest. It is calculated as a percentage of a loan (or deposit) balance, paid to the lender for the privilege of using their money. The percentage is usually quoted as an annual (yearly) rate.

Compound interest
The interest you earn on interest. When you keep the interest you earn in your savings account, the balance gets bigger, and so earns even more interest. Over time, this creates incredible growth.

Repo rate
The interest rate banks pay to borrow money from the Reserve Bank.

Prime rate
The baseline interest rate that banks use to calculate individual rates for specific clients. It is calculated by adding a mark-up to the repo rate, to cover banks' basic profit margins. The rate offered to an individual client may be adjusted up or down based on the product they are using and their risk profile.

South African Reserve Bank
The central bank of the Republic of South Africa. The primary purpose of the Bank is to achieve and maintain price stability in the interest of balanced and sustainable economic growth in South Africa.

Inflation
The rate at which the general price of goods and services rises in an economy over time. Inflation decreases the purchasing power of your money, so in a year from now you'll be able to buy less with R20 than you can today.

Balance sheet

Assets
Something of value that you own. It generates an income for you and/or can be sold and converted into money.

Liabilities
Obligations or debts that you have to repay or that you owe someone.

Net worth
The value of your assets (what you own) minus your liabilities (what you owe) equals your net worth. If it is a negative number, work towards making it positive, and grow it over time.

Income and expenses

Gross income
Your total income *before* tax and any other deductions.

Net income
Your take-home income *after* tax and any other deductions.

Fixed expenses
Monthly expenses such as rent, insurance and school fees that are the same amount each month.

Variable expenses
Expenses that fluctuate each month, such as the amounts you spend on electricity and food.

Credit and debt

Debt-to-income ratio
The percentage of your gross monthly income (income before any deductions) that goes towards debt repayments.

Term loan
A loan that must be repaid, along with all interest and fees, in regular instalments over a fixed period of time (the loan term).

Revolving credit
A type of credit that does not have a fixed number of payments, for example, a credit card. With revolving credit, a consumer can continuously borrow money up to a pre-approved credit limit.

Principal amount
The principal of a loan is the original amount that was borrowed, including initiation fees.

Instalment
A regular payment, made repeatedly (usually monthly) over an agreed period of time. A loan instalment will include interest, fees, capital repayment and credit life insurance.

Credit bureau report
A record of a person's past and present credit products and their repayment behaviour. It shows a person's current debt exposure, historic exposure whether repayments are or were made on time. Missed payments will remain on a credit record for up to 36 months after the account has been settled and closed and the effect of missed payments could reduce access to credit in future.

word list

Insurance

Long-term insurance
Insurance that covers life-changing events such as death, critical illness and disability. It is designed to ensure you and your dependants are financially secure even if unexpected events prevent you from earning an income.

Short-term insurance
Insurance that you take out on your possessions to protect you against losses you may suffer as a result of unforeseen events such as accidents, crime, floods, fires or illness.

Credit life insurance
A type of insurance designed to cover a borrower in the case of death, disability, terminal illness or unemployment. Read your policy carefully to understand exactly what is covered.

Banking

E-wallet / digital wallet
An e-wallet (short for electronic wallet) digital system that stores users' bank cards digitally so that they can buy things using their smartphone, laptop or tablet – either online or in a store. It is also called a digital wallet.

Statement
A record of all the transactions (all the money paid into and withdrawn out of an account) and the balance of an account, over a specific period of time.

EFT (electronic funds transfer)
Electronic transfer of money from one bank account to another. You can make payments from your bank account to other bank accounts and receive payments from other bank accounts. It's easy and convenient, and costs less than transferring money in a branch. It is also much safer than drawing and handling cash at an ATM.

Beneficiary
A person or company that you pay from your bank account.

Daily card limit
The maximum amount you are allowed to spend on your bank card each day. You can set and change this limit for free in your banking app.

Daily withdrawal limit
The maximum amount of cash you are allowed to withdraw from your account each day. You can set and change these limits for free using mobile banking.

Card skimming
Card skimming happens when criminals manage to read and copy your card's magnetic strip. They will also need your PIN. Be very vigilant for any possible suspicious devices on the ATM, as this could be a card reader or skimming device. Immediately report any suspicious devices noticed at an ATM.

#SimplifyBanking #LiveBetter

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