

RANDS & SENSE

# Save, and you shall prosper

The end of the year is when people are most likely to get into debt. Here are some things you should know about interest rates, credit and debit cards, credit bureaus, and saving.

Often people are too afraid to ask questions, because they see it as a sign of weakness. The opposite is true! One of the world's great thinkers, Albert Einstein, said "the important thing is not to stop questioning".

We have compiled a number of questions on personal money management. Hopefully you will find answers to some of the questions you have always wanted to ask!

**Jargon**

**What do the letters n.a.c.m. behind an interest rate, e.g. '12% NACM' stand for?**  
This means Nominal Annual Compounded Monthly. These letters mean that the nominal interest rate has been quoted. The effective rate will be higher. Compounding interest means that interest is calculated on interest. For example, if you borrow R1 000 at 24% NACM, the effective rate of interest is 26,8%!  
• Tip: When borrowing money, always check the interest rate and ask what the effective rate is when comparing credit providers.

**What does 'prime rate of interest' mean?**  
The prime rate of interest is the interest rate that banks will charge their best (or 'prime') customers. If prime customers want an unsecured loan, such as an overdraft, they will be charged prime. Customers with more risky profiles will be charged more than prime. Prime is 15,5% (and let's hope it comes down soon!).

**Understanding credit**

**What is the difference between a debit card and a credit card?**  
A credit card is a credit facility and if you don't pay the full balance on your statement by the due date, you will be charged interest. Interest on some credit cards is as high as 35% NACM – which is an effective rate of 41,2%!

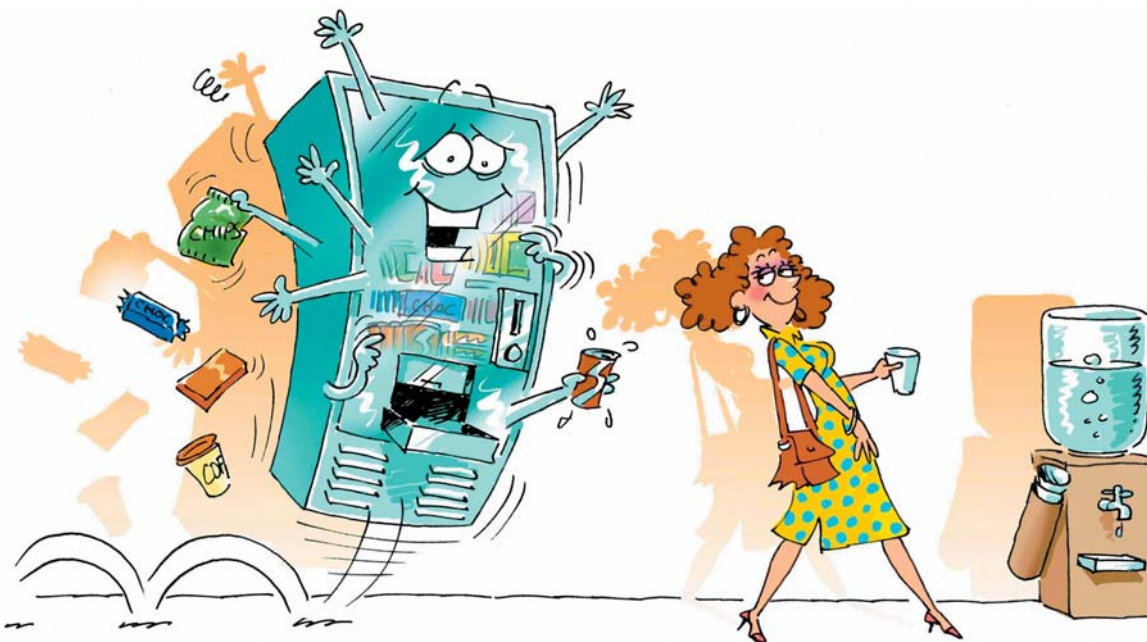
A debit card is linked to your bank account and when you make a purchase on that card, money is immediately transferred from your account to the retailer. If you do not have sufficient funds, the transaction will be rejected, and you will be charged a rejection fee.  
• Tip: Do not draw cash on your credit card. You will be charged interest as well as a cash withdrawal fee.

**What is the difference between 'budget' or 'straight' when paying by credit card?**  
Budget plans are normally used for expensive items that you want to pay off over 12 or 24 months. Once a purchase is put on a budget plan, you will pay a fixed monthly instalment over the budget period. You can then plan for this expense in your monthly personal budget.

Straight means that the purchase is added straight to your credit balance. You should pay off all your 'straight' purchases at the end of the month when you receive your statement.

**What is revolving credit?**

Revolving credit is the balance of all your straight purchases at the end of the month. Your credit card provider will ask you to pay a minimum instalment each month, depending on your balance. This instalment can range from 3,5% to 10% of your balance.  
• Tip: Pay at least 10% of your credit card balance each month and not the suggested



**Saving success: A true life story**

Mrs X bought a cooldrink and a packet of chips each day at work, which cost her R10 per day. She realised that by cutting back on the chips and having a glass of tap water, she would save R50 per week or R2 600 per year (and that's before earning any interest!).  
Why don't you start a R10 per day savings plan today and give yourself a nice bonus at the end of 2009?

minimum instalment (often 5%). Increase the repayment each month until you can pay the full balance. Once you are paying the full balance, you will not pay any interest!

**Is there a maximum rate of interest that I can be charged, and is there a limit on the fees that a credit provider can charge?**

Yes. Since the introduction of the National Credit Act (NCA) in June 2007, interest rates and fees on credit transactions have been regulated. The maximum interest on:  
• home loans is 31,4%;  
• credit cards and store cards is 36,4%, and  
• unsecured personal loans is 46,4%.  
These maximum rates are linked to the prime rate. For every 1% change in the prime rate, the maximum NCA rates will change by 2,2%. For example, if prime comes down by 1%, the maximum credit card rate will be 34,2%.

The maximum service fee that can be charged by a credit provider is R50 per month, plus VAT, which brings it to R57.  
• Tip: Don't let a credit provider tell you he has to charge you a NCA fee of R57 per month. The NCA has simply regulated a maximum fee and the credit provider does not have to charge you a fee at all!

**Credit bureaus**

**Is it true that I can get a free, detailed credit report once a year, but that I have to apply in the month of my birthday?**  
Yes and no. You are entitled to one free, confidential, detailed credit report per annum, but you can request this report in any month.  
• Tip: Experian (086 110 5665) or Transunion (086 148 2482) provide free credit reports.

**I was told that a credit bureau declined my application for credit. Is this true?**  
NO! Credit bureaus simply hold information

about your credit history, such as credit limits, account balances and payment details. The credit provider bases its decision on information held by the credit bureau. The credit provider will grant you credit depending on whether the credit provider thinks your history shows that you are likely to repay the debt.  
• Tip: Review your free credit report and make sure you agree with all information on the report before you ask for credit.

**I have been listed with credit bureaus but was never notified. Can creditors do that?**  
No, your credit grantor/creditor must notify you in writing before they list you as a bad payer, or list you with any other negative status.

**Debt reduction**  
**I have a number of debts. Which debt should I pay off first?**  
Always pay off the debt with the highest interest rate first.  
• Tip: Make sure you know the interest rate on all your debts. Look at all your statements each month and keep a record of the interest rate, noting any monthly changes.

**Expense management**  
**I cannot afford my child's school fees. I have heard that, depending on my income, I may be entitled to a reduction in fees. Is this correct?**  
Yes. Each government school has a guideline for fee reduction based on the percentage of your gross household income that school fees represent. If school fees are more than 10% of your gross household income and you are struggling to make ends meet, then you should approach the school to discuss fee exemption.

**Saving**  
**How can I save on my income?**  
The only way to save, no matter what your income, is to pay yourself first! The first deduction from your salary each month should be into your savings account! Start with 1% of your salary and gradually build up to 5%.  
You then budget to spend what is left after you have saved. If you wait until the end of the month to save, the chances are very slim you that will have anything left to save!

“The only way to save, no matter what your income, is to pay yourself first! The first deduction from your salary each month should be into your savings account.”

## When you elect a trustee



Every pension fund has a board of management or trustees to run the fund's affairs. Trustees have fiduciary duties, which mean that they must exercise their powers to the benefit of the fund and always act in the best interests of the fund and its members.

Members of funds are responsible for electing 50% of the trustees to the board. It is important that members understand and participate in the election process as the board of trustees makes important decisions regarding their fund benefits.

It is important to elect people who are responsible, honest and willing and able to perform the duties required. No person can be elected as a trustee if he/she:

- is disqualified from being a director in terms of the Company's Act, 1973. This would typically be as a result of being convicted of a criminal offence involving dishonesty, fraud, theft, forgery or breach of fiduciary duty, or
- has been removed from an office of trust on account of misconduct; or
- is an unrehabilitated insolvent; or
- is a minor.

**What are the duties of a trustee?**

- To manage the fund in terms of the rules of the fund and according to the Pension Funds Act, 1956, and the Income Tax Act, 1962.
- To take all reasonable steps to ensure that members' interests are protected.
- To act with due care and diligence, and in good faith.
- To avoid conflict of interest.
- To act with impartiality.
- To ensure that proper controls are in place.
- To ensure that information is communicated to members.
- To take all reasonable steps to ensure that contributions are paid timeously.
- To obtain expert advice where own knowledge is insufficient.
- To ensure that the operation and the administration of the fund complies with the law.

Trustees are required to attend regular board meetings, and must be familiar with the fund rules and policies, accounting systems, investments, insurances and relevant legislation.

Trusteeship cannot be taken lightly – in terms of the Financial Institutions Act, trustees can be sued in their personal capacity for mismanagement of fund assets.

When nominating trustees, ask yourself this question: "Would I trust them to manage R10 000 for me?" If the answer is 'no', then they're a poor choice.



**Puzzle solutions (for page 24)**

5	9	1	4	1	8	8	9	2	7
4	7	3	5	2	5	6	1	6	8
8	2	9	6	7	1	6	3	5	4
8	3	6	2	2	8	5	6	7	3
6	7	3	1	9	4	2	8	5	6
1	9	6	8	2	3	3	7	4	1
6	8	2	3	7	8	1	7	5	6
1	7	8	5	4	6	9	3	2	1
2	6	5	7	9	3	8	4	1	7

The Sudoku solution and the 32 words in the WordSearch puzzle.  
TENNIS, TREE, UP, WASTE, WATER, SAID, SAY, SITE, STAFF, SURPRISE, TAP, MADE, PUT, RESCUE, ROCK, ROOM, FEW, FOR, GAS, GOLD, HOW, LIFE, CLUB, DAM, DEPT, ELVES, FEATS, BUILT, BUS, CAR, CATHEDRAL, CITY.

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