Family Finances
during challenging times

Money is one of the critical factors that impacts relationships. It is therefore of paramount importance for individuals and families to understand money matters in order to avoid many stresses and pitfalls.

A critical tool that will be explored in this article is the importance of having a monthly budget. Many people don't like budgeting, but this discipline is actually a friend and not a foe.

What is a Budget?

A budget is a detailed plan of income and expenses over a specified future period of time, and is usually compiled and re-evaluated on a periodic basis.

What is Income?

Income is money received on a regular basis either from work or investments. Household income is a measure of the combined incomes of all people sharing a particular household or place of residence.

What are Expenses?

These are costs incurred in or required for something. Household expenses represent a breakdown of general living expenses such as groceries, water and lights, rent, transport costs, etc.

Why Budget?

The act of preparing a budget is called budgeting. Budgeting is important for individuals, families, businesses and is crucial when resources are limited. Two key principles in budgeting is that expenses should never exceed income,

and that savings should be set aside for future uncertain times.
Elizabeth Warren, in her book 'All Your Worth,' pioneered the '50/30/20' budgeting system that many financial experts still promote today. The rule is simple:

Budget 50% of your net income to cover basic fixed expenses (tithes & offerings, rent or home loan, travel, groceries, security, etc.)
Budget 30% for lifestyle expenses (eating out, clothing, cell phone upgrades, etc).

Budget 20% for savings or emergencies such as a burst geyser, sick pets, etc., or to pay off outstanding debt. Economists say this is the minimum amount of money you need in an emergency fund. Money experts generally encourage you to set aside three to six months' worth of living expenses in an emergency fund.

Advantages of Budgeting

People who adhere to strict budgets are less likely to face financial stresses that challenging times might cause. Budgets need not be complicated and it is never too late to introduce a budget as families.

A family budget will help you:
• Spend your money wisely on the things you must have – these are your needs
• Save money for the things you like but can live without – these are your wants
• Set aside money for unforeseen expenses – for example, if your car breaks down and needs repairs
• Stop unnecessary spending

Where and How to Start?

Start by gathering all financial statements in order to create a list of monthly expenses. The next step would be to calculate the family income in order to assess fixed and variable (changeable) expenses. An accurate assessment will thus be made of the total family income versus family expenditure, which will indicate where adjustments should be made.

Forced savings (e.g. through a monthly debit order into a separate account) is a great way of saving. Because the process of accessing these funds can often be difficult, with certain time restriction in place, it the free access of the monies at any time, and thus restrain unnecessary withdrawals.

Stokvels are another way of creating good saving habits as one is forced to contribute a set amount of money every month. Then, based on a predetermined rotation, each member would receive a lump sum pay-out at a specific time of the year.

Importance of Saving

People should start saving as soon they earn money, whether it is doing home chores at age 5, or entering the workforce after a degree at age 25. Saving money is a wise financial practice at any age and is particularly valuable during emergencies.

Are you financially prepared for emergencies? In fact, many financial advisors encourage having an emergency fund before tackling debts. The Covid-19 pandemic has left many families in dire financial situations because they were unprepared for its impact on the family budget.
It is never too late to start creating an emergency fund

and building it up for some future rainy day. It is suggested that you should save 20% of your income, but if you set that aside right now, start with what you can, even if it is with an initial 5%.

> *"The solution to our finances is not a bigger salary, but working wisely with what we have!*

Tax and Budgeting

Maximise on tax refunds? You can save on your tax bill with allowable tax deductions by making use of tax-free savings, retirement annuity contributions, donations, travel claims, etc.

What is a Tax-free Savings Account (TFSA)?

The South African National Treasury allows a tax-free savings account as an incentive to encourage individuals to save. With a tax-free savings account, you can save or invest up to R36 000 a year, capped at a total lifetime contribution of R500 000, which will attract zero tax.

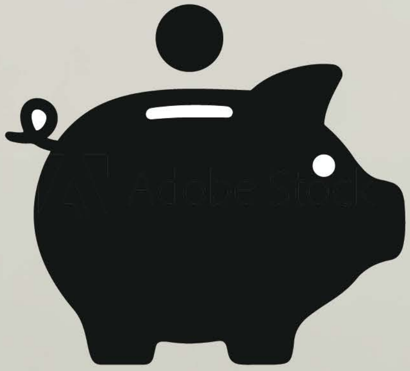
Tax free investments may only be provided by licensed banks, long-term insurers, registered collective schemes (with certain exceptions), national government, mutual banks, and co-operative banks. You can speak to your banker or financial advisor for more information.

Income-protection Cover and Tax

While the premiums paid on income-protection policies are no longer tax-free, the benefits paid by these policies are exempt from tax.

Retirement Savings and Tax

It would be prudent to consider increasing retirement savings up to the maximum tax-deductible amount. Speak to your tax consultant or



financial advisor for more details. Keep in mind that it will be taxed once it is withdrawn at a later stage, even though tax savings are experienced before that time.

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A clear retrospective financial perspective will be evident when reconciling income and expenses for annual tax returns, which should assist with budget adjustments for the following year.

How to Manage Your Money During Crises

Crises like Covid-19 demand lifestyle changes and the reprioritisation of monthly spend. Habits such as drinking and smoking, which impact family finances and health negatively should be cut out completely since they have no family benefits. Other wasteful behaviours also need to be reconsidered.

Shopping sprees and the desire to have the latest gadgets need to be considered wisely since the desire for immediate gratification could result in a bleak financial future. The 30% lifestyle expenses referred to earlier should be adhered to strictly – which may not always be pleasant, since entertainment or eating out may have to be seriously reduced or done away with completely.

Conclusion

Overall budgeting and saving requires discipline, and takes time to develop in order to see results. Don't lose heart! The effort is worth it.
The solution to our finances is not a bigger salary, but working wisely with what we have!

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