BIZCOMMUNITY

Budgeting for the future: How life insurance policies and savings plans work hand in hand

By Clyde Parson

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This week our Minister of Finance, Enoch Godongwana, will be delivering his budget speech, which will outline government's planned expenditure over the next year.

Source: Supplied. Clyde Parson, chief innovation officer at BrightRock.

In his speech, Minister Godongwana will be highlighting what areas of need – such as housing, education, and healthcare – government intends on prioritising in terms of how much budget they are allocating to each sector.

Now, although it's probably a given that many consumers don't have access to the billions of rands that government does, the principle of budgeting – planning a monthly and annual expenditure – should apply to all who earn an income. One key aspect of budgeting is saving, and it is an element often neglected, as the cost-of-living increases and our short-term-gratification culture dominates.

In July 2021, the South African Reserve Bank reported that households were spending three-quarters of their take-home pay on debt. The need to budget and save have become even more critical over the past two years with many people having lost their job or income during the hard lockdown in 2020, and it's important that we take control of our finances to ensure a better future for ourselves and those dependent on us.

A financial plan for the future

When South Africans, and caregivers in particular think of their savings plan, life insurance is not likely to be the first thing they associate with saving up for what is important to them. Most people see life insurance as a grudge purchase, something that they only benefit from should something serious happen to them, or even worse, if they should die.

It’s important to have both life insurance and savings plans, as they each safeguard futures in different ways. Life insurance is necessary to protect primary caregivers and their loved ones should anything happen to them and they can no longer provide for the family, while savings are critical in helping them prepare for unexpected expenses such as an emergency vehicle repair, to fund larger future needs such as their retirement, and to keep their debt to a minimum.

On the surface, life insurance doesn’t seem to have much to do with those financial goals caregivers set themselves. But it’s important to see life insurance, disability and critical illness cover, and savings as important vehicles that work hand in hand.

Restructuring insurance cover to free up savings

Caregivers should structure a life insurance policy so they're managing their premiums as efficiently as possible, paying as little as they can for adequate life cover, so they have additional amounts available to supplement their savings. Getting needs-matched cover is key so that they can ensure that they’re not overpaying for cover that they don’t need, and for a period of time when they don’t need that cover.

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A good example of overpaying for insurance is cover that would be paid out to look after their children if they were to pass away. They only need this cover until they’re expected to become financially independent, so they should never take out whole of life cover to cover this need, as they’ll be paying for cover after the period that the need comes to an end. Also, because the cover term is one of the factors that insurers take into account when pricing cover, they’ll pay more from the first premium for cover that’s expected to last for a longer period.

Evaluate portfolios regularly

It’s important caregivers set up regular sessions with their financial adviser to reassess their financial portfolio and make changes if necessary. For example, perhaps they took out some life insurance a few years ago to pay off their bond or in case they became disabled or passed away. But they've recently come into an inheritance, however, and have since used this money to pay off their bond. Because they no longer need this cover for their bond, it is a good idea to move that cover to an area in their policy where they are possibly underinsured, or to move that amount into a savings vehicle like their retirement policies.

Critical illness can drain savings

Critical illness has an important link to savings. For example, caregivers could become disabled in a car crash and need to make multiple changes to their house, that could include the addition of ramps and modifications to their bathroom and kitchen. If they don’t have cover in place for this, the money will need to come from somewhere and unfortunately that will mean digging into savings. A small emergency fund will not be enough to pay for the significant additional expenses that could arise from a serious illness or injury, so it’s a good idea for them to ensure they’ve got critical illness cover on their life insurance policy.

A financial adviser can help

Insurance products can be pretty complicated. Fortunately, many well-qualified financial advisers can answer questions, provide clear explanations, and help interested parties understand what they're buying when it comes to life insurance. Financial advisers must meet strict regulatory requirements and be properly licensed with the Financial Sector Conduct Authority (FSCA) and product providers.

For caregivers who've been thinking about their savings and how best to plan for their future financially, then there is no time like the present to take action. They should look for online recommendations for financial advisers. They should start their savings plan today – their future selves will thank them for it.

ABOUT THE AUTHOR

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