



**Taking control is a good way  
to cope with tough times**



**Tough times are something we would rather avoid. This tough time affects our health, our relationships, our well-being, our communities, our way of living, our finances and our future.**

When we experience tough times, we tend to question our belief systems as well as our way of doing things. Right now, we're questioning what the future will be like. We're being forced to do things differently – such as keeping a physical distance between each other and not taking part in most of our usual activities.

The COVID-19 pandemic is not like anything we've experienced. It affects so many areas of our lives. This means that many of us are experiencing uncomfortable levels of uncertainty and worry.

Dealing with uncertainty can be tricky because as people we like to feel as if we're in control and right now we're not. There seems to be very little we can do. So, what are our options?



### **What we recommend in a nutshell:**

- 1** Be informed so that you know what you need to focus on.
- 2** Take responsibility for knowing what you need to know so that you can control the things that are controllable.
- 3** Rely on people who have the knowledge and experience to manage things you can't manage for yourself.

**Focus on the things that matter to you so that you can make it through these tough times in the best possible state - for your physical, emotional and financial well-being.**



## Know that you're not alone

If you're worried about how you'll get through this tough time, you're not alone. TransUnion<sup>1</sup> did some research in April and found that almost **eight out of ten South Africans say that their household income has reduced because of the COVID-19 crisis. One out of ten South Africans say they've lost their jobs.**

<sup>1</sup> The COVID-19 Pandemic's Financial Impact on Consumers, TransUnion, 10 April 2020



## Start taking control

There are many things about these tough times that we can't control: who will get sick, how sick they will be, if the companies we work for will survive, how the economy will be affected and when financial markets will recover.

When it comes to our finances, there are things we can control, yet in good times most of us don't. While many of the habits we have are useful - they keep us going from day to day, doing the things we enjoy most, with the people we care about - some of our habits aren't so good.



### Examples of bad habits



**Not budgeting**



**Not keeping a record of our expenses**



**Not having a financial plan**



Maybe we can use this opportunity to do better than before and give ourselves a better chance of reaching our goals, and coping with the unexpected.



## STEP 1

### Take control by understanding your situation

It's important to know where you spend your money and what resources you have:

- Make a list of your expenses and debt repayments.
- Make a list of your household income and any savings you have.



## How are other South Africans coping?

Almost 70% of the people surveyed<sup>1</sup> in the TransUnion research said that they are concerned about paying their bills. Of the people who said they were concerned:



**46% said they won't be able to pay their utility bills such as electricity and water**



**42% said they don't see themselves being able to make their rent payments**



**39% said they won't be able to pay their cellphone bills<sup>1</sup>**

Approximately 32% of all respondents said that they expect to be able to pay their bills for longer than one month, but less than three months. A total of 16% said that they'll only be okay for another 2 to 4 weeks.

This means that almost everyone is experiencing some financial pressure and most people think that they will struggle financially.

<sup>1</sup>The COVID-19 Pandemic's Financial Impact on Consumers, TransUnion, 10 April 2020



### STEP 2

**Take control by asking what you can change**

Review your expenses in detail to find out which expenses can be reduced, delayed or stopped.



### STEP 3

**Take control by planning**

Work out how long you will be able to pay your bills, by calculating your total household income, savings and other possible sources of income.

## STEP 4



### Take control by being proactive

Once you understand your financial position, you can start planning for when and how you will reduce, delay or stop any non-essential expenses. Also, consider taking other necessary actions to ensure that your money stretches as far as possible and for as long as possible.

### What actions are being taken by people who think they'll struggle to pay their bills?<sup>1</sup>

Two out of five people have started to contact their creditors to discuss payment options



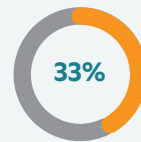
29% will use their savings to pay bills



22% will borrow money from a friend or family member



27% don't know how they're going to pay their bills



33% will only pay what they can afford

**Be cautious:** A quarter (25%) of South Africans have been targeted by fraud schemes related to COVID-19.

<sup>1</sup> The COVID-19 Pandemic's Financial Impact on Consumers, TransUnion, 10 April 2020

## STEP 5



### Take control by starting new habits

Now that you have a budget and a plan:

- stay on top of your finances by recording your expenses
- compare your expenses to your budget every time you spend money
- check your plan every month and adjust it if needed

By starting a good habit, you'll be using this opportunity to put yourself in a better position to achieve what matters most to you. A financial adviser can help you with your financial plan.



In addition to worrying about making it through the month, you may be worried about your retirement savings.





# Important information regarding your retirement savings

Global financial markets and our local financial market have been shocked by COVID-19 and drastically falling oil prices. The market shock may have resulted in your retirement savings decreasing. Financial market shocks have happened in the past and are expected to happen from time to time.

Although we can't be sure what will happen this time around, markets tend to recover from shocks over time. Looking at past financial market shocks shows us that, in general, it's been better to keep money invested in the share market after a crash.

## Time on your side

If you have a bit of time left before you will need to live on your retirement savings, knowing about past market recoveries could make you more comfortable, even if we don't know for sure what will happen this time.

## What if you're retiring soon?

If you're retiring soon, you might be feeling uncomfortable. You may be worried that your savings won't have enough time to recover, even if the financial market does recover like it has in the past.

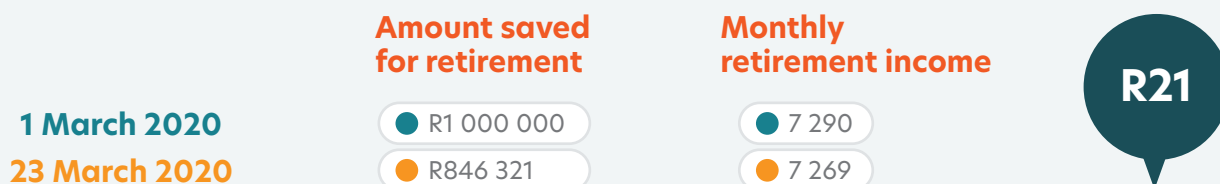
It's important to know that another effect of this financial market shock is that it now costs less to buy a retirement income

## Achieving retirement income goals depends on:

- 1 the amount of savings you have when you retire, and
- 2 the cost of converting your savings into a retirement income (by buying a guaranteed or life annuity). This cost changes over time and is mostly determined by changes in government bond interest rates.

The impact of COVID-19 and other shocks on the market has meant that the retirement income amount that a pensioner can buy hasn't gone down that much.

## Here's an example to show what we mean:



At the beginning of March 2020, a person with R1 million could have bought a retirement income (guaranteed or life annuity) of approximately R7 290<sup>2</sup> per month. On 23 March, they could have bought a retirement income of approximately R7 269<sup>2</sup> per month with their reduced savings balance of R846 321 - a difference of only R21. This shows that the financial market crash did not significantly reduce the retirement income amount that a pensioner could buy.

<sup>2</sup> This estimated income is based on the default with-profit-annuity that has been adopted by the Alexander Forbes Retirement Fund.



## Trusting experts in tough times



**Most of us** will know what has happened to financial markets since the start of the crisis because it's the kind of news that makes headlines.



**Some of us** will know that markets go up and down over time and have recovered from past crises over time.



**Very few** of us will know that COVID-19 and other recent market shocks have resulted in **the cost of buying a retirement income going down.**

This highlights the importance of having a financial expert that can help us manage our money. Emotions such as fear often cause us to react in costly ways when it comes to managing our own money. For instance, we may switch our investments out of the share market when it's at its lowest point. Although investment professionals are not immune to fear and emotions, they have considerable knowledge and experience of investment markets and economies. They also have processes and principles that they apply as expert teams before making decisions about the investments in their portfolios.



**What if someone you care about is one of the 10% of people who have already lost their jobs? How can you support them?**



One way is to help them understand the options relating to their retirement savings when they leave their employer. **This guide explains these options.**

# What you should do now and what we will be doing

Relying on experts when we need them is not the same as ignoring a problem and hoping it'll go away. It's important to use this crisis to take stock of your circumstances, understand your options and make good decisions that give you the best chance of reaching your goals, while coping with the unexpected.

If you need help with this, take advantage of any retirement benefit counselling services that are offered by your fund. This will help you to stay informed about your retirement savings and options. Sometimes asking for help with your decisions is the best choice. Registered financial advisers are a good source of help during tough times. An adviser will help you to make the best decisions based on your personal circumstances.



## Getting professional, personalised advice, at the right time, can:



help you decide which of your goals to prioritise



assist with identifying the solutions or services that can help you achieve these goals



improve your chances of financial success throughout your life and in retirement

During this period, Alexander Forbes will continue to focus on helping you reach your retirement objectives and achieve better outcomes by:

- investing your retirement savings
- helping you understand your options
- helping you make choices that are right for you

### Start building good habits by:

- > taking stock of your circumstances
- > keeping track of your expenses
- > planning for how you will get through this tough time
- > carefully considering your options before acting
- > making sure that your decisions give you the best chance of achieving what matters most to you



**Remember** that your retirement savings may have decreased and can increase again. However, your expected retirement income has not been significantly affected by events so far. Being armed with this knowledge hopefully allows you to feel more comfortable and in control so that you can focus on your health, your well-being and your loved ones during this time.





## Contact details

Phone the Alexander Forbes Client Contact Centre on 0860 100 333 Monday to Friday between 08:30 and 17:30

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