

STARTING OUT – INSURANCE PRODUCTS

INSURANCE PRODUCTS AS A MEANS OF INVESTING

Retirement annuities (RA's) are the insurance salesman's best friend. He can earn a good commission off a relatively small monthly investment whilst you end up paying off his commission over a few years before you actually benefit. This does not mean all RA's are bad investments. You can invest in unit trust based RA's that only charge pay-as-you-go fees i.e. no upfront commissions. An RA is a good investment if you are working in a company that does not have a retirement fund or where you earn commission or large bonuses. If you only earn a monthly salary you may not get much benefit from an RA. The general guideline is that you can get a tax benefit with 15% of your income from bonuses, commission or a salary where you do not have a company retirement fund. Be sure to check this calculation with a tax specialist or professional investment advisor before investing in an RA. Finally, it is important to know that you cannot access your RA until you are at least 55 years old so be careful – they can be great investments but you need to be sure of what you are getting into.

Endowments can also be great investments especially if you want to invest for 5 years or longer as the proceeds from your endowment will be free of tax if you hold the investment for 5 years or more. As per the RA's you should only invest in unit trust based endowments and you should only pay fees on a pay-as-you-go basis. Don't pay upfront fees and don't pay commission – high fees wipe out growth.

Whatever you do, don't commit to an endowment with a term longer than 5 years, you can always extend it later. Secondly, don't have an RA that "retires" after you turn 55. You can always extend the term later. As a general rule, try not to invest in traditional insurance based investments, unit trust based investments are more transparent and flexible.

LIFE COVER, DISABILITY COVER

Necessary

Might have cover provided by your company

IF YOU STILL WANT TO TALK TO AN ADVISOR

If you are anxious about the whole investment world and would like to speak to a professional make sure you understand how they get paid. My advice to investors with small amounts (especially if you are starting out) is to pay an advisor a fixed amount for a consultation or investment plan. R1 500 plus VAT for an investment plan or R500 per hour for a consultation is a good guideline. In exchange the advisor should give you detailed written recommendations. This will allow you to use an advisor without the

concerns about poor investment recommendations based on high commissions. If you want the advisor to do the investment on your behalf then you may need to pay a fixed fee every year but make sure you don't get locked in to high commission investments that eat away your growth.