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OPEN YOUR MIND TO FRESH FINANCIAL PERSPECTIVES

Momentum | UNISA Household Financial Wellness Insights 2020

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UNISA university of south africa

FOREWORD

2020 was meant to be the start of the new decade. None of us saw Covid-19 coming. Instead, it's been the 'perfect lesson plan' on why the value of good financial advice, is a key ingredient for great financial planning. A well - considered plan can empower you to better or successfully navigate the unexpected.

There isn't a single South African household, that has not been impacted by the current pandemic. Covid-19 is one example of a factor that is beyond our control, and yet it still had the audacity to visit our homes in an untimely and unexpected manner. There are still opportunities that are hiding in plain sight. Look closer, and you will see the number of small business entrepreneurs that have adapted their business models, to make for amazing local flavours and made for a good and profitable year.

Momentum and UNISA are in their 9th year of collaborating together. This year, our focus is to adjust with you and enable your journey to financial success.

For eight consecutive years, Momentum and UNISA's successful collaboration has always been outlined by executing on a perfect plan too: have a questionnaire, find willing people to participate and interview them. However this year, we were faced with the challenge of the physical fieldwork limitations that were brought about by the pandemic. But in keeping with the resilience of our beautiful nation, we too have pivoted. We have looked at the research from a fresh angle.

You'll notice that this year's report is referred to as the Momentum Unisa Household Financial Wellness Insights instead of Index. The only thing that has changed about this body of academically sound research, is its name. We have however kept the credibility and quality of our data intact.

This partnership in and of itself is almost a decade old, and we can honestly say that we have used this time to reflect and understand the realities of everyday South Africans. It is your lived experiences that fuels us to continue to drive change and conversation at a government, private sector and household level.

Enjoy the fresh perspectives we offer you in this 2020 edition. A special mention to the women of South Africa, the insights in this report reminded me of your resourcefulness to get things done. It is why we are committed to being here for every woman's journey to success.

Charlotte Nsubuga-Mukasa
Head: Momentum Brand Marketing.

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THE **REPORT** 2020

Here's the thing: to achieve your goals, you need a plan. But any plan whether it is compiled by a government, company, or household will remain just a plan, until it is implemented. Implementation, however, needs a plan of its own, known as an implementation plan.

An implementation plan maps the original plan's goals and targets, the specific skills needed for successful implementation and the intended activities and completion dates, all within a specific budget. Then, execution must occur.

Every household has goals. To achieve such goals, plans are needed. One of the plans, is a financial plan. A financial plan can be summarised as a proposal that indicates specific medium to long-term financial goals of the household. Its compilation requires a specific skill and includes different financial products that will assist in achieving such goals. However, the financial plan needs to be accompanied by a detailed implementation plan – that includes short-term targets, the long-term goals and time frames. Executing the implementation plan will increase the chances of financial success – and contribute to the personal financial empowerment of individuals and households.

The Momentum/Unisa Household Finance Insight Report for 2020 provides information specially designed to inform and empower South African households to achieve financial success and recover from the impacts of Covid-19, as well as the subsequent lockdown.

The Science of Success 2020 endeavours to inspire households by taking a closer look at:

- The economic environment that surrounds South African households
- Factors that affect the financial success in households
- The impact of Covid-19 on household finances and behaviours
- Practical tips for recovery and acceleration towards financial success

BORN WITH THE POTENTIAL TO SUCCEED, DECELERATED BY STUNTED GROWTH:

THE SOUTH AFRICAN ECONOMIC ENVIRONMENT

Even before the outbreak of the Covid-19 pandemic and the lockdown period, which began on 26 March 2020, the South African economy was not a positive environment within which companies and households could thrive. Economic growth averaged 0.8% over the past five years instead of the needed 5%, while unemployment continued to increase, instead of declining

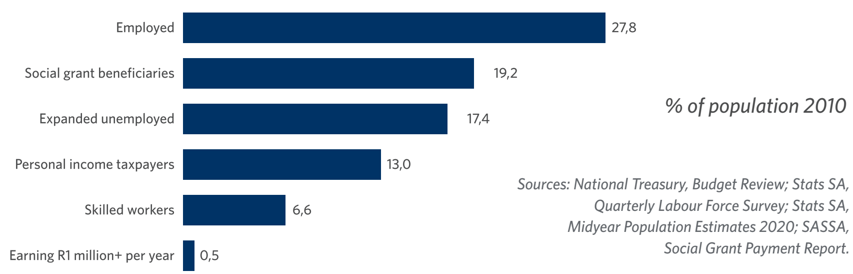
WHAT WAS THE ECONOMIC ENVIRONMENT LIKE IN 2019?

In 2019, the economy expanded by 0.2% compared to world economic growth of 2.9%. This stagnating nature of economic growth indicates, among others, companies' inability to increase production and employ more workers. In fact, 44 000 people lost their jobs in 2019 compared to 2018. At the same time, the number of unemployed increased by 543 000 to 10.2 million, increasing the expanded unemployment rate to 38.4% from 37.1% in 2018.

THE ENVIRONMENT PROMOTES ECONOMIC EXCLUSION INSTEAD OF INCLUSION.

With almost no economic growth and an increase in job losses, more and more South Africans are unfortunately excluded from participating in economic activity *(see figure 1)*.

Figure 1: Households' participation in the South African economy



Sources: National Treasury, Budget Review; Stats SA, Quarterly Labour Force Survey; Stats SA, Midyear Population Estimates 2020; SASSA, Social Grant Payment Report.

> Only 13% of our population earned enough to pay personal income tax.

This type of economic structure – which is constructed from the income side of the economy – is one of the main reasons for our economic and social challenges. It illustrates that only 27.8% of our population was employed in 2019, while 17.4% was unemployed. Consequently, 19.2% had to rely on social grant receipts to make a living.

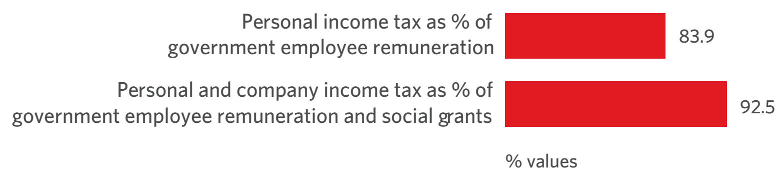
FACT: THERE IS NOT ENOUGH RICH PEOPLE AND TAXPAYERS TO FUND THE GOVERNMENT'S SALARY BILL AND PLANS.

Figure 1 also shows that only 13% of our population earned enough to pay personal income tax (note that the personal income tax threshold started at a low taxable income of R6 584 per month). Only 7% is skilled and a mere 0.5% earns a taxable income of more than R1 million per year.

The numbers show that there are not enough wealthy South Africans and personal income taxpayers to finance our government's salary bill and social security programmes. For example, all the personal income tax collected in 2019/20 only covered 83.9% of government employees' salaries and benefits.

Furthermore, personal and company income taxes combined could only cover 92.5% of the government's salary bill and social grant payments, leaving a shortage of R60 billion *(see figure 2)*.

Figure 2: South Africa does not have enough taxpayers to afford the government's plans



Source: National Treasury, Budget Review 2019 and 2020.

The rich pay 40,8% of personal income taxes, and make the largest contribution to household savings.

THE BAIL-OUT OF STATE-OWNED ENTERPRISES AND OTHER GOVERNMENT PLANS ARE EXPENSIVE.

This left the payroll tax, value added tax, customs and excise duties, the fuel levy and a few other taxes to fund the shortfall of R60 billion, interest on state debt of more than R205 billion, as well as the bailouts of state-owned enterprises and all other government expenditure. As a result, the fiscal deficit increased by 65.4% to R326.6 billion (from R197.4 billion in 2018/19).

HIGHER PERSONAL INCOME TAXES CREATE NEW BARRIERS FOR HOUSEHOLDS TO OVERCOME.

Increasing personal income taxes and improving tax collections will, unfortunately, not reduce the fiscal deficit much. This is because 72% of the estimated 7.6 million registered personal income taxpayers earned a low to middle income – up to R29 166 per month.

Collecting more taxes from them to fund growing government expenditure will create several other financial problems for the middle-income group. It will reduce their ability to support poor family members, buy a property or vehicle, repay their debts, save for emergencies and retirement, or insure themselves against harmful events such as car accidents, theft, death, etc. Similarly, taxing the wealthy more will not increase government revenue much – because National Treasury statistics show (refer to figure 1), that there were only 282 619 people who earned a taxable income of more than R1 million per year (R83 333 per month) in 2019/20.

Although higher or more taxes on the wealthy may in the short run increase government revenue and reduce the fiscal deficit, it will create other shortages that will harm our economy more in the medium to long-term.

The rich already pay 40.8% of personal income taxes - and they also make the largest contribution to household savings. Many of them also contribute to the success of our country through job creation via entrepreneurship. Taxing them more will, however, increase the economy's savings shortage, which will limit investments and in turn, job creation. This will make our country even more dependent on the rest of the world (to fund our savings shortage) for investment growth.

COMPANIES AND FINANCIAL MARKETS FIND IT DIFFICULT TO MAINTAIN THEIR MOMENTUM.

Our economic structure also explains why South African companies struggle to generate growing profits. Due to the small number of individuals that earn a reasonable income that enable them to purchase goods, save and invest, the domestic demand is just too small to increase company sales and profits. As such, more companies are searching for profit-making opportunities abroad and creating businesses as well as jobs in other countries. This, coupled with international economic troubles, explains why the JSE All Share Index was 4.1% lower at the end of 2019 than the end of 2017.

Such negative returns on shares create problems for the relatively small number of households who earn enough to save. Their savings for retirement, either via annuities or employer retirement schemes are invested in among others share markets.

The negative returns on their investments mean that fewer households would have accumulated enough financial wealth to earn them a sufficient income to live on by the time they retire. These returns also did not keep up with price and salary increases in 2018 and 2019. Consumer price inflation increased by 4,7% in 2018 and 4.1% in 2019 which exceeds the negative returns yielded by shares over the two years.

The JSE All Share Index was 4.1% lower at the end of 2019 than the end of 2017, but savings invested in bonds have provided positive returns to households.

There are silver linings though: savings invested in bonds have provided positive returns to households. The All Bond Index was 18.8% higher at the end of 2019 than the end of 2017, benefiting from among others, international events and stable interest rates. This means that savers would have received a positive return, even after price increases if their savings were invested in bonds.

Likewise, household savings that were invested abroad would have generated positive after-inflation returns due to the profits made by companies and a weaker rand. The rand weakened by almost 10% from an average of just more than R13/US$ in 2018 to R14.42/US$ in 2019. This demonstrates why households' retirement and investment portfolios should be diversified.

WHEN SALARY INCREASES ARE BELOW INFLATION, SAVING TAKES A BACKSEAT.

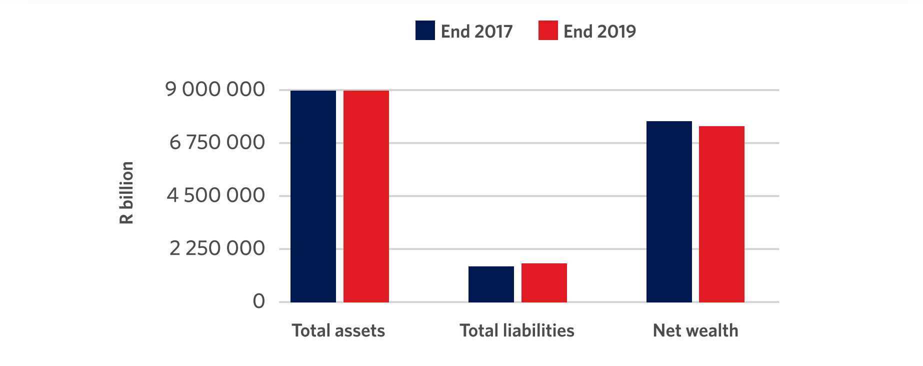
It's getting tougher for the majority of South African households to save. Apart from an increased tax burden, households also had to deal with price increases that exceeded salary increases - which reduced the purchasing power of their income. Put differently, when prices increase more than salaries, households can purchase less with their income, or purchase the same amount and save less, or a combination of both. Real total employee remuneration in 2019 was 0.3% lower than in 2017, meaning that, on average, workers' salary increases were less than price increases.

One consequence is that some households indeed purchased less and lived within their means, but others borrowed money to maintain their spending and saving behaviour. Outstanding household credit was 12.3% higher at the end of 2019 than the end of 2017, driven by increases of 22.8% and 17.8% respectively in personal loans and credit card debt.

HOUSEHOLD WEALTH ALSO DECLINED IN PURCHASING POWER TERMS

With the real value of households' savings and investments struggling to grow and their outstanding debts increasing, it contributed to the real value of their net wealth (especially their financial assets in pension funds and other investments) declining by an estimated R76 billion to R7 536 billion over the two-year period, ending in 2019 (see figure 3). Ideally, this should have increased to improve households' future living conditions.

Figure 3: South African household real net wealth is not growing despite asset acquisitions



Source: Momentum-Unisa Household Wealth Report Q1 2020.

THE ECONOMIC LANDSCAPE IN 2020

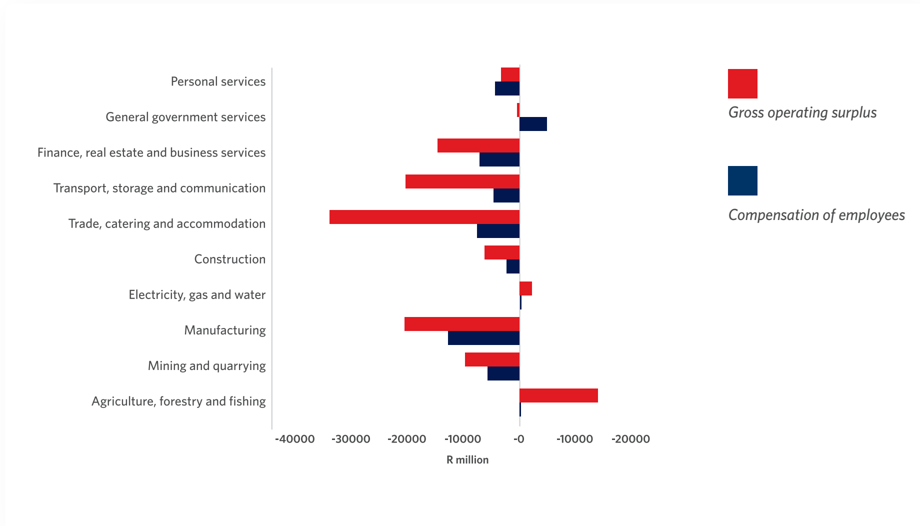
Unfortunately 2019 was not the end of households and companies' struggles. The size of the economy shrank by 0.5% in Q1 2020 compared to Q4 2019. Then it contracted by a further 16.4% in Q2 2020 (compared to Q1 2020) due to the lockdown instituted by government in its attempt to contain the spreading of the Coronavirus. The lockdown prevented many workers from working and earning an income or searching for work. At the same time, many companies could not produce and sell their goods and services.

WORKERS AND COMPANIES' INCOME DECLINED IN Q2 2020

Altogether, workers and companies' income declined by R126.8 billion during Q2 2020 compared to Q1 2020 (see figure 4). Although workers' income decreased by R36.7 billion, companies recorded gross operating losses of R90.1 billion.

The trade, catering, and accommodation industry's income losses amounted to R40.5 billion as workers' remuneration declined by R7.4 billion and companies' gross operating surplus declined by R33.1 billion. The manufacturing sector's income loss was R32.3 billion – employee compensation declined by R12.2 billion, and company gross operating profits by R20.1 billion. However, in the government sector, employee remuneration increased by R5.1 billion over the quarter, while the gross operating surplus in the agriculture, forestry and fishing sector increased by R14 billion as parts of this sector were allowed to operate during stricter levels of lockdown.

Figure 4: Workers' remuneration and company profits plummeted in Q2 2020



Source: Stats SA: Gross Domestic Product Q2 2020.

Not all people that lost their job in Q2 2020 became permanently unemployed. Some of them indeed found employment during Q3 2020.

ABOUT 2.2 MILLION PEOPLE LOST THEIR INCOME FROM WORK

The extent of the damage caused by the lockdown became visible in Stats SA's Quarterly Labour Force Survey. The number of people who earned an income from work declined by an estimated 2.2 million people in Q2 2020.

This does not mean that all of them became permanently unemployed. Some received funds from the Temporary Employer Relief Scheme (TERS), but many would indeed have lost their jobs permanently, while others were prevented from working due to the lockdown – and they should start earning again as the economy opens for business. Some of them indeed found employment during Q3 2020. Stats SA's Q3 QLFS shows that employment increased by 543 000 during Q3 2020 compared to Q2 2020, but the total number of employed was still 1.7 million less than before the lockdown.

PERSONAL INCOME TAX PAYMENTS DECLINED, ADDING TO THE GOVERNMENT'S WOES

As workers' income declined due to not working and having to take pay cuts, personal income tax collections also decreased. At R182.6 billion, personal income tax collections for the six months from April 2020 to September 2020 were R30 billion lower than a year before (whereas it should have been higher under normal circumstances).

As the middle-income group made up 72% of the registered personal income taxpayers before the lockdown, the decline in personal income tax collections suggest that they were hardest hit. Had it not been for the South African Reserve Bank lowering the repo rate from 6.5% in January 2020 to 3.5% in July 2020 which provided debt repayment relief to borrowers, their hardship would have increased even further.

HOUSEHOLDS CHANGED THEIR SPENDING-, SAVING- AND DEBT REPAYMENT ACTIVITIES AND BEHAVIOUR

As their income declined and the lockdown prevented them from freely purchasing goods and services and gaining larger access to borrowing, some households' financial behaviour changed – in some cases forcefully, others due to fear, and then also because of payment holidays from banks and insurers.

As shown by figure 5, South African Reserve Banks statistics indicate that between Q2 2020 and Q1 2020:

- Households had less money to spend. Their disposable income (after personal income tax, contributions to employer benefit schemes, and interest on debt) decreased by R27.5 billion. This is mostly due to them not being able to earn an income from work. However, lower interest rates, payment holidays, larger social grant receipts, and TERS-payments somewhat softened the blow;

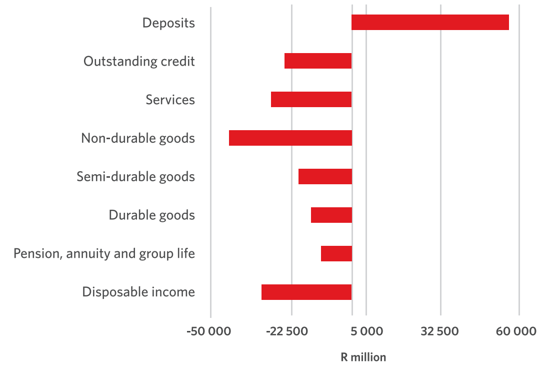
- Their consumption expenditure on goods and services decreased by R105.5 billion. The largest decline was spending on non-durable goods (R43.7 billion) such as food, tobacco, and alcohol products, followed by outlays on services (R25.8 billion), including rent, hotels and restaurants, and transport services. Apart from less income, this decline was caused by the lockdown that prevented sales and purchases of some goods and services;

- Their outstanding credit was reduced by R24.1 billion. Due to banks being wary of offering new credit, it limited households' access to credit. At the same time, though, banks extended some payment holidays, while families who could afford to do so, repaid their credit – and this exceeded the uptake of new credit;

- Their contributions to pension funds, retirement annuities, and group life insurance declined by R10.9 billion. Contribution holidays by insurers and lapses due to not earning an income were the largest causes of the decline;

- Their deposits in banks increased by R58 billion. Not being able to spend and fearing a prolonged lockdown contributed to higher household bank and deposit account balances. However, deposits with a term of six months or longer declined as some households, among others, accessed these funds to make a living and fund their expenses.

Figure 5: Changes in household income, spending, saving and insurance behaviour, Q1 2020 to Q2 2020



Sources: South African Reserve Bank Quarterly Bulletin Q2 2020; Credit and deposit statistics.

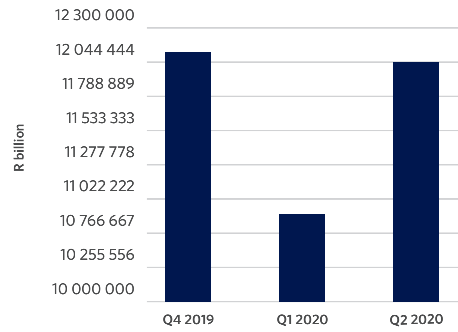
HOUSEHOLD WEALTH TOOK A DIVE, BUT RECOVERED AS MARKETS REGAINED LOST GROUND

Apart from its impact on income during Q2 2020, Covid-19 and the lockdown caused a big loss in both the real and nominal household net wealth values. However, the bulk of these losses occurred in Q1 2020 - as the share and bond markets declined with the lockdown announcement in March. As most households' financial wealth (in the form of pension funds, annuities and investments) is invested in the share and bond markets, the nominal value of household net wealth decreased sharply by an estimated R1.2 trillion (from R12.1 trillion to R10.9 trillion) at the end of Q1 2020. In real terms (after subtracting the impact of consumer price inflation to arrive at the purchasing value of household wealth), the decline was an estimated R842.9 billion (from R7.54 trillion or R7 536 billion to R6.69 trillion)

> Household wealth decreased sharply by an estimated R1.2 trillion at the end of Q1 2020, but almost the whole decline was recovered in Q2 2020.

There is some good news, though: as figure 6 shows, almost the whole decline in household wealth in Q1 2020 was recovered in Q2 2020 (for those households who did not sell their financial assets due to the fear caused by the decline in share and bond values) as the markets regained the bulk of the "paper losses".

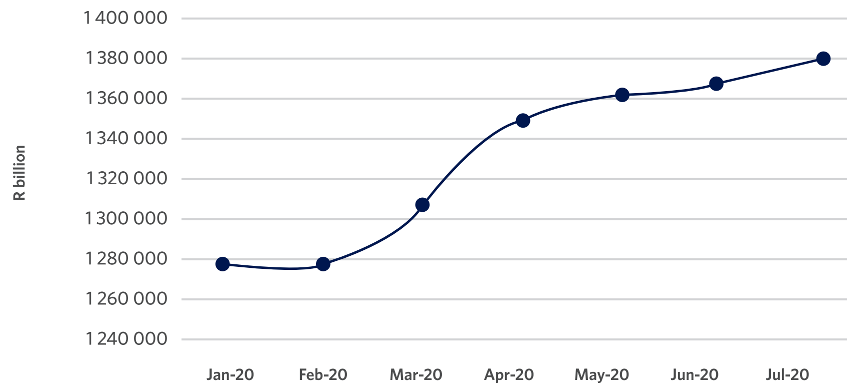
Figure 6: Household wealth recovered from the Covid-19 and lockdown decline



Source: Momentum/Unisa Household Net Wealth Index: Q2 2020.

As mentioned earlier, household deposits, which form part of households' financial assets, increased substantially (see figure 7). Strikingly the magnitude of the increases continued in July, even after the relaxation of the lockdown restrictions on buying. This suggests that households who still managed to receive an income and who again started to receive an income (after the economy opened) increased their emergency savings due to, among others, fear – that they may lose their job and income, should the government institute another hard lockdown.

Figure 7: Household savings in deposits increased sharply even after a "relaxed" lockdown



Source: South African Reserve Bank: Release of Selected Monthly Data, August 2020.

THE SOUTH AFRICAN ECONOMIC RECONSTRUCTION AND RECOVERY PLAN AND ADJUSTMENTS TO THE 2020-21 BUDGET AND OUTER YEARS

President Cyril Ramaphosa, on 15 October 2020, provided a brief analysis of the negative impact the Covid-19 pandemic and subsequent lockdown had on the economy. He also announced a broad outline of the South African Economic Reconstruction and Recovery Plan (ERRP) that aims to increase the country's economic growth rate to, on average, 3% over the next decade. This is lower than the 5% proposed by the National Development Plan.

The ERRP proposes to focus on infrastructure, electricity generation, rapid industrialisation, and structural reforms such as modernising network industries, reducing barriers to entry, and increasing regional integration and trade.

When Finance Minister Tito Mboweni announced the government's medium-term budget plans on 28 October 2020, he suggested that the economy may shrink by 7.8% in 2020 – and only return to 2019-levels in 2024. The national treasury expects the economy to recover moderately and grow by 3.3% in 2021, but then slow again to a rate of 1.7% in 2022.

Personal income tax collections are expected to decline by R73.4 billion in 2020/21 from R527.6 billion in 2019/20. In contrast, the government's wage bill is estimated to increase by R10.1 billion. This means that personal income tax collections will only finance 73.4% of government employees' salaries in 2020/21 compared to 83.9% in 2019/20.

The decline of government revenue and higher expenditures means that the revenue shortfall (fiscal deficit) will more than double to R761.1 billion in 2020/21 from R330.6 billion in the previous year. In other words, the fiscal deficit will increase to 15.7% of the gross domestic product in 2020/21 from an already high 6.4% last year.

> 16c of every R1 in government revenue is used to pay the interest on the debt.

Unfortunately, this budget deficit is not estimated to decline quickly. It is projected to be at a still-elevated R535.9 billion in 2021/22. There's also this point to note: the proposed fiscal deficit reduction (from R761.1 billion to R535.9 billion) is based on a "government salary freeze", but labour unions have already rejected this proposal, increasing the risk of a higher budget deficit than currently estimated by the national treasury.

We face the reality of borrowing massive amounts in an environment of low economic growth, almost no job creation, and fewer taxpayers. This means that total government debt will jump from 63.3% of the gross domestic product in 2019/20 to 81.8% in 2020/21 – and even further to 95.3% in 2025/26. From 2019/20 to 2023/24, the national treasury expects outstanding government debt to increase by R2.3 trillion (from R3.2 trillion to R5.5 trillion). Increasing debt means that the interest on our debt will increase even further. As it is, 16c of every R1 in government revenue is used to pay the interest on the debt.

These numbers are not good news. It suggests that South African households, especially the middle class, will have to look after themselves by "doing the right things" – as they won't be able to rely on the government for direct assistance.

A LAST WORD ABOUT OUR ECONOMIC ENVIRONMENT

The economic numbers – before and after the lockdown – show that South African households should not rely on the government for an improvement in their finances, but rather must take more responsibility for themselves and control over their lives. Entrepreneurship, responsible spending, -saving and -borrowing are what our economy needs for an accelerated and sustainable recovery.

It pays to do the right things. The macroeconomic analysis suggests that the households who take more control over their finances are more likely to enjoy financial success – even during difficult times. The numbers illustrated that such households typically have multiple income streams (more than one source of income), and they have a diversified asset base (more than one asset type and their financial investments are diversified in different kinds of assets such as shares, bonds, and cash). They also have sufficient rainy-day funds set aside that can act as savings for emergencies.

But more about this will be revealed in the next sections that will focus on the impact of Covid-19 and the lockdown on household finances; and what households did and can do to soften the impact of factors beyond their control such as Covid-19 and the lockdown.

THE IMPACT OF COVID-19 AND THE LOCKDOWN ON HOUSEHOLD FINANCES

An analysis was done to estimate the impact of Covid-19 and the lockdown on household finances to, among others, determine the magnitude of the effects and identify the households who were hardest hit and those who managed to weather the storm better.

Before having a look at this analysis, it must be stated that all households were in some or other way financially affected by the impact of Covid-19 and the lockdown, due to:

- not being able to work and earn an income;
- experiencing salary cuts;
- being retrenched/ losing jobs;
- not receiving government assistance;
- not being able to receive transfers from families, friends, strangers, or NGO's;
- not being able to freely buy goods and services;
- having had to pay for municipal services but not receiving them;
- cut back on spending and quality of living;
- having to take payment holidays that must be absorbed at a later stage;
- not being able to contribute to emergency savings or other savings;
- not being able to contribute to pension funds and insurance;
- the value of property prices increased at a slower pace and even decreased;
- the value of investments and pension funds declined;
- the inability to sell assets freely;
- where it was possible to sell assets, not receiving a market-related price;
- not being able to access credit that would otherwise have been available;
- not being able to repay debts; etc.

> It's clear that every household was affected, even those who received a full income during the lockdown and who perceived that they went through it unscathed.

WHAT IMPACTS A HOUSEHOLD'S FINANCIAL SUCCESS?

When you look at our economic environment, it is clear that the ability of a household to achieve financial success was negatively affected by several factors beyond their control – such as the lockdown and spread of the Coronavirus.

Before we go into detail about that, let's briefly revisit the Household Financial Wellness Index (refer to previous research reports on the Momentum-Unisa Household Financial Wellness Index for a more thorough explanation). To recap, the state of households' financial wellness and ability to achieve financial success are measured by analysing the five capitals they possess, namely:

Their two input capitals (what households have):

- Level of education and experience (Human capital); and
- Ability to take control of finances/personal empowerment (Social capital).

Their three output capitals (impacted by how they, among others, used their input capitals in combination with certain financial activities):

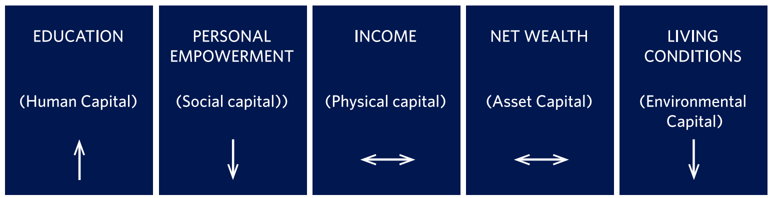
- The income they receive (Physical capital);
- The net wealth they generate (Asset capital);
- Their living environment (Environmental capital).

Due to the lockdown and restrictions imposed that affected data collection, it was impossible to directly measure the five capitals in 2019 and distribute them according to demographic variables such as income and age groups. However, it was possible to approximate the trends at a very high level. Administrative data from Stats SA and the South African Reserve Bank were used to approximate the trends in four of the five capitals, while Big Data analysis was used to approximate a trend for the level of personal empowerment (Social Capital).

It is important to note that the sole purpose of the approximated trends is to determine a trend of the five capitals in 2019 – and not to provide index scores. The analysis shows that households' education (Human Capital) continued to improve. Unfortunately, this was not accompanied by an improvement in personal empowerment (Social Capital).

The consequence is that an improvement in education levels without a high level of personal empowerment will not be of much value to households in managing their finances. That is why it is not surprising that households' income and net wealth remained unchanged, while their living conditions deteriorated further *(see illustration 1).*

*Illustration 1: Approximated trend of the five capitals in 2019**



**Based on information from the Momentum-Unisa Household Finance Database; |Stats SA Quarterly Labour Force Survey; South African Reserve Bank Quarterly Bulletin; September 2020.*

As for 2020, it was possible to estimate the impact of the lockdown on two of the three output capitals: household gross income and their net wealth (assets minus outstanding debts) in monetary terms. This will be discussed in the next section.

ESTIMATING THE IMPACT OF COVID-19 AND THE LOCKDOWN ON HOUSEHOLD FINANCES

Differences exist between the way households were impacted, and the duration of this impact. For instance, some households lost all, or part of their income from work (affecting their physical capital), while others lost some of their wealth (impacting their asset capital). Another group of households lost both.

To estimate the impact of Covid-19 and the lockdown on households' gross income and net wealth, a specific scenario was constructed:

- Using the Momentum-Unisa Household Finance Database, a forecast was estimated to determine what a household's gross income and net wealth would have been if there was no Covid-19 and lockdown *(this is called the business as usual estimate – BAU)*;
- Given the availability of some macroeconomic data, it was then possible to estimate the impact of Covid-19 and the lockdown on gross household income and net wealth (this is called the *Covid-19 estimate – COV*);
- The BAU and COV-estimates were compared to determine the extent of the losses in gross income and net wealth;
- The differences between the BAU and COV estimates were distributed by income group to determine which households were impacted most.

THE MAGNITUDE OF THE LOSSES

The results of the impact analysis revealed the following in terms of the magnitude or extent of the impact:

- The loss in households' gross income (the difference between the BAU and COV estimates of gross income) is estimated at R331.9 billion;
- Households' net wealth (assets minus outstanding debt/liabilities) is estimated to have declined by an initial R946.1 billion under the COV-scenario compared to the BAU-estimate by the end of the first quarter of 2020. Fortunately, most of the decline in household net wealth was regained as the economy opened, and financial markets recovered (increasing the value of investments and pension funds). The impact of this recovery was not estimated, though, as it was not the purpose of the impact analysis.

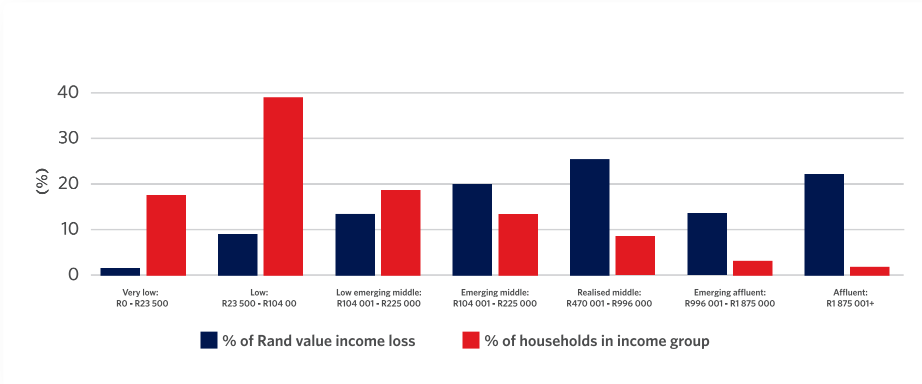
THE IMPACT ON GROSS HOUSEHOLD INCOME DISTRIBUTED ACCORDING TO INCOME GROUP

The estimated gross income loss of R331.9 billion was not equally shared among income groups *(see figure 8)*. The distributional analysis shows the following:

- The largest impact, namely 23.7% of the estimated R331.9 billion gross income loss, was incurred by the Realised middle-income group. They comprise the households earning between R470 001 and R996 000 per year;
- In addition, 18.6% of the estimated gross income loss occurred in the Emerging middle-income group, whose gross income ranges between R225 001 and R470 000 per year;
- Combined, the two middle-income groups incurred 42.3% of the estimated gross income loss, but they comprise only 22% of the number of households;
- The lower-income groups were not as hard hit. Their primary sources of income comprised of different types of government grants, which continued to be paid throughout the lockdown. They, however, were also affected as the transfers they normally receive from family and friends and other sources were not as freely available;
- The research estimates that 9.3% of the estimated gross income loss occurred in the Low-income group, although they constitute 38.9% of all households;
- The richer component of the households was proportionally the hardest hit – 35% of the estimated gross income loss occurred in the Emerging affluent and Affluent income groups, but they comprise about 3.7% of the households.

Furthermore, the analysis showed that the Covid-19 pandemic and lockdown did not discriminate according to age, education status, gender, and other demographic variables as all groups were affected. However, it seems as if households with more than one source of income were better equipped to weather the storm.

Figure 8: Distribution of household gross income loss among income groups



Source: Momentum-Unisa Household Finance Database.

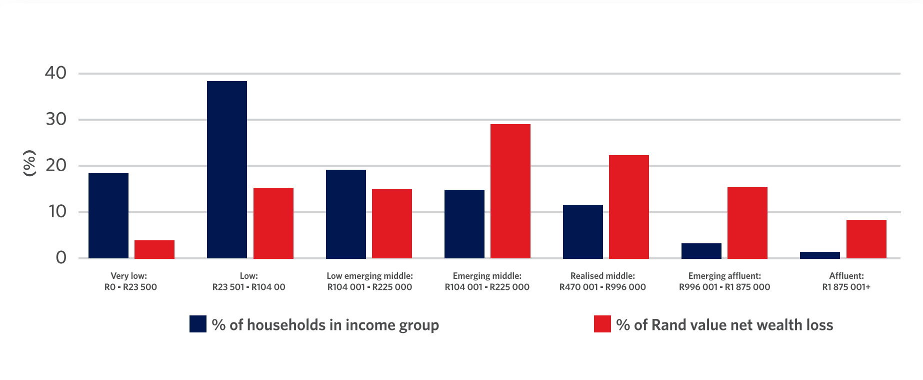
IMPACT ON HOUSEHOLD NET WEALTH BY INCOME GROUP

The same exercise was performed to estimate the distribution of the initial decline of R946.1 billion in the value of households' net wealth. This shows the following *(see figure 9):*

- Although the pattern differs somewhat, the results show that the burden of the estimated decline in household net wealth was also carried by the middle-income groups. Combined, the Emerging middle- and Realised middle-income groups suffered 48.4% of the fall while comprising 22% of the households;
- The Emerging middle-income group experienced the bulk (27.2%) of the decline, followed by 21.2% of the Realised middle-income group. They were impacted by the decrease in their cash deposits (to purchase goods), pension funds, and residential property values, while their debt burden increased.
- The wealthier group (the Emerging affluent and Affluent income groups) were again the hardest hit on a proportional basis. Although they comprised 3.7% of the households, they incurred 20.2% of the household net wealth decline. They were affected by a sharp decline in the value of their investments and pension funds.
- The two lower-income groups were proportionally the least impacted. Still, their share of the decline in net wealth (17.4%) was larger than their income loss (10.0%). The decline in their net wealth occurred from a reduction in the value of their deposits, as well as an increase in their debt burden.

However, as mentioned earlier, a large component of the decline of R946.1 billion in the value of households' net wealth has since been regained. Such decline was initially driven by sharply decreasing financial asset values, especially pension funds and investments in share and bond markets. Share and bond markets have since recovered, contributing to the recovery in households' financial assets and net wealth.

Figure 9: Distribution of decline in household net wealth among income groups



Source: Momentum-Unisa Household Finance Database.

HOUSEHOLDS' FINANCIAL STRUGGLES DURING LOCKDOWN

To obtain households' views on how they were impacted during the lockdown period, an online survey was conducted among South African adults during August 2020. It was not the intention of this survey to be nationally representative. This limitation was unfortunately due to lockdown restrictions. Instead, the focus was to obtain the views of immediately accessible individuals who were willing to provide a high-level perspective of their household finances during the lockdown. The 1 147 participants' responses gave us some idea of what the lockdown has been like for their households.

NAVIGATING THE TRYING TIMES

Households identified several financial struggles they experienced since the start of the lockdown and those they are still struggling with. The main categories are:

- Loss or reduction of income;
- Paying their debts;
- Making ends meet; and
- Maintaining their standard of living.

Their real concerns and struggles were categorised in the following order of importance:

- Not able to provide family and friends with financial assistance;
- A reduction in salary income;
- Not having enough emergency savings to cover unplanned financial expenses;
- Struggling to cover their monthly necessities, as well as luxuries;
- Not able to pay for medical expenses not covered by a medical scheme;
- Struggling to pay their debt;
- Becoming unemployed was only the eighth biggest struggle for the surveyed respondents.

Some households were fortunate not to experience any direct financial struggle, while others experienced several financial struggles. Almost 50% of households reported that they experienced none or only one financial struggle; about 30% said two or three struggles, and the remaining 20% more than four financial struggles.

Table 1: Households' top 10 biggest financial struggles during Covid-19 and the lockdown

	Only one struggle	Two struggles	Three and more struggles
Family and friends requiring finanial assistance	1	1	4
Reduction in salary income	2	2	3
Not having emergency savings	3	3	1
Reduction in pension income	4	7	9
Not having enough money to cover monthly luxuries	5	4	5
Not having enough money to cover monthly necessities	6	5	2
Medical costs not covered by medical aid	7	6	6
Missing payments on debt	8	10	7
Becoming unemployed	9	8	8
Reduction in income from other sources	10		
Moved to a smaller house or downgraded to a smaller vehicle		9	10

Source: Momentum-Unisa Online Survey

WHEN THE GOING GETS TOUGH, YOU HAVE TO KEEP THE MOMENTUM GOING

A closer look at households' two most significant challenges, namely the requirement to assist family and friends, and cope with a reduction in salary income, revealed the adjustments they had to make to deal with these challenges.

Before these are discussed, it must be mentioned that there were two distinct groups who were approached by family and friends for financial assistance. The first group had enough resources of their own to assist without experiencing any direct additional financial strain.

However, the second group had to make some adjustments to help their family and friends. Table 2 shows they reorganised and changed their spending behaviour – by increasing their online shopping, cutting back on their expenditure (financial management), and reviewing their financial goals. This resulted in new consumption patterns and less spending on luxuries. They also partnered with professional financial advisers to assist with reviewing their financial goals while also having had to access some savings and investments.

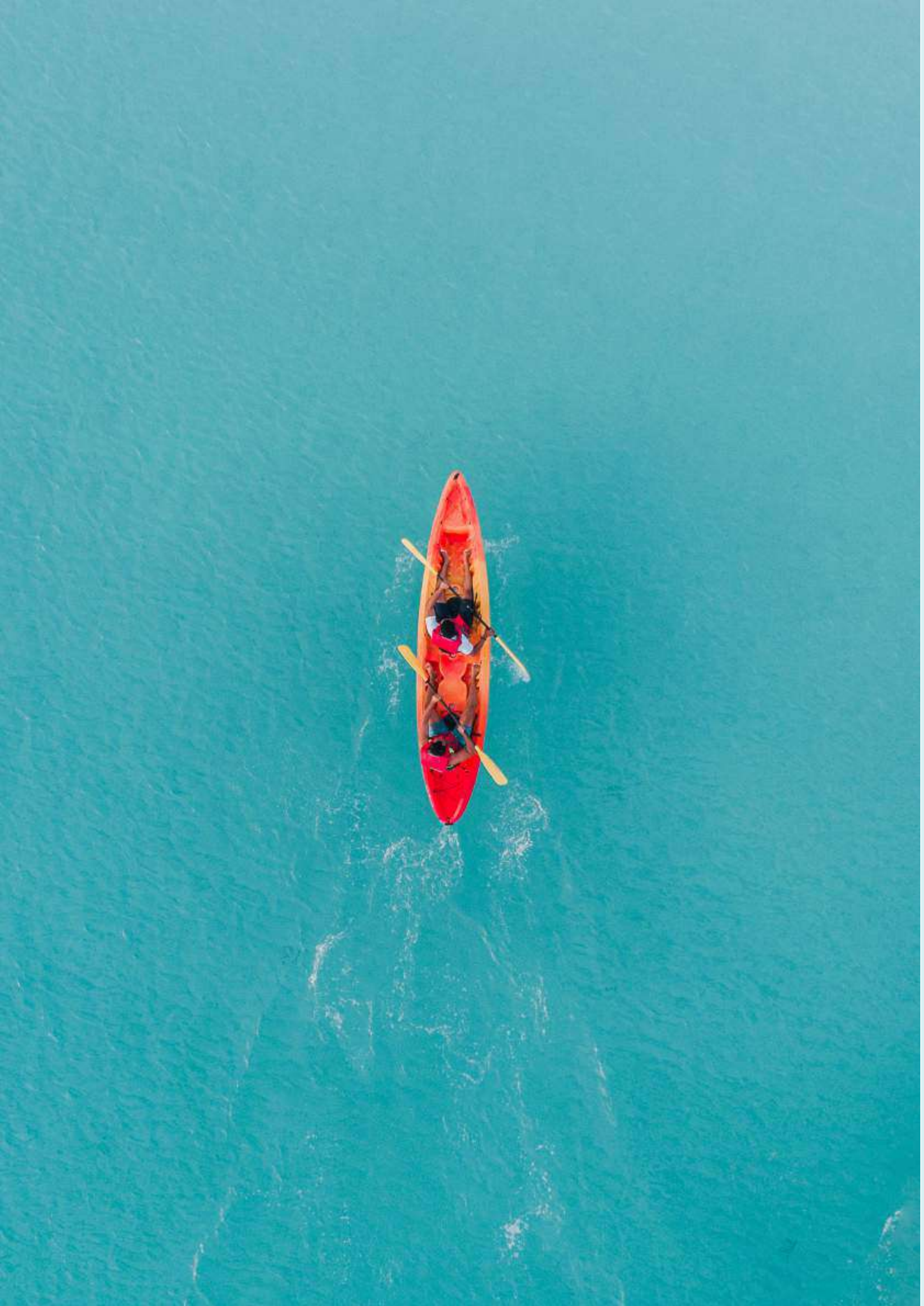
On the other hand, people who experienced financial pressure due to a salary reduction dealt with the challenge by reorganising their spending pattern. This involved changing their store of preference, updating their budgets and cutting back on luxuries (financial management), and managing their debts. Their need to survive in the short-term is evident from more of them reporting that they reviewed their short-term goals and took payment holidays before they spoke to a financial adviser.

Table 2: Selected coping strategies of households during lockdown

	Challenges during lockdown	
Coping strategies	Family & friends requiring financial assistance	Reduction in salary
Change spending behaviour	1	1
Financial management	2	2
Review goals	3	4
Do nothing	4	11
Utilise savings or investments	5	6
Financial advice	6	5
Explore additional sources of income	7	8
Debt management	8	3
Asset realisation	9	10
Apply for financial relief	10	7
Business closure	11	13
Review life insurance	12	9
Change living arrangements	13	12
Review medical aid	14	14

> The survey identified the main challenges that households faced during the lockdown and the mechanisms they applied to cope with these struggles. Some of them were successful, while others were not.

The next section will explore the concept of financial success further.



THE SCIENCE OF FINANCIAL SUCCESS

WHAT IS FINANCIAL SUCCESS?

> Before digging deeper into the formula that households can follow to achieve financial success, let's take a look at what financial success is.

Financial success became a buzzword all over the world, yet not many people know what it actually means. Financial success comes from the daily steps we take to reach the unique goals we have set for ourselves. It's about both small and big victories, and it changes as we become more knowledgeable and clearer about what we want to achieve. Indeed, the research reveals that families and individuals are achieving some sort of financial success daily – without realising it.

Our research as well as what's been found by international institutions such as Stanford University, have indicated what financial success is. Although different methodologies were used, the outcome, namely defining financial success, is strikingly similar.

On a personal level, financial success can be achieved on two levels: the journey towards a financial goal and the destination - when the specific goal is reached. In simple terms, for households and individuals to know whether they are financially successful or not, they must have financial goals. Some set these goals consciously, and others do it on a subconscious level. All the same, financial goals should exist for all households and individuals.

HERE IS THE BEAUTY OF IT ALL: FINANCIAL GOALS DIFFER.

True financial success should be assessed in terms of each individual's and household's unique goals, and not by simply looking at how much they earn or how rich they are. These unique goals are influenced by many things, such as circumstances, environments, values, etc. – and can be short- and long-term in nature. For example, for some households, their short-term goal might be to have enough resources to put food on the table daily, while their longer-term goals may be to earn enough to buy a house or save for emergencies or retirement.

Other households may set their short-term sights on saving enough for an overseas trip while their longer-term goals may include repaying their debt faster. There will also be those who want to save for their child's education and protect their family against theft or income losses.

Whatever the goals, there are always specific steps to be followed. These steps signify the journey towards achieving that goal. Although the journeys may all be different, these journeys have one thing in common: they all involve activities. If you want something to happen, you must do something about it.

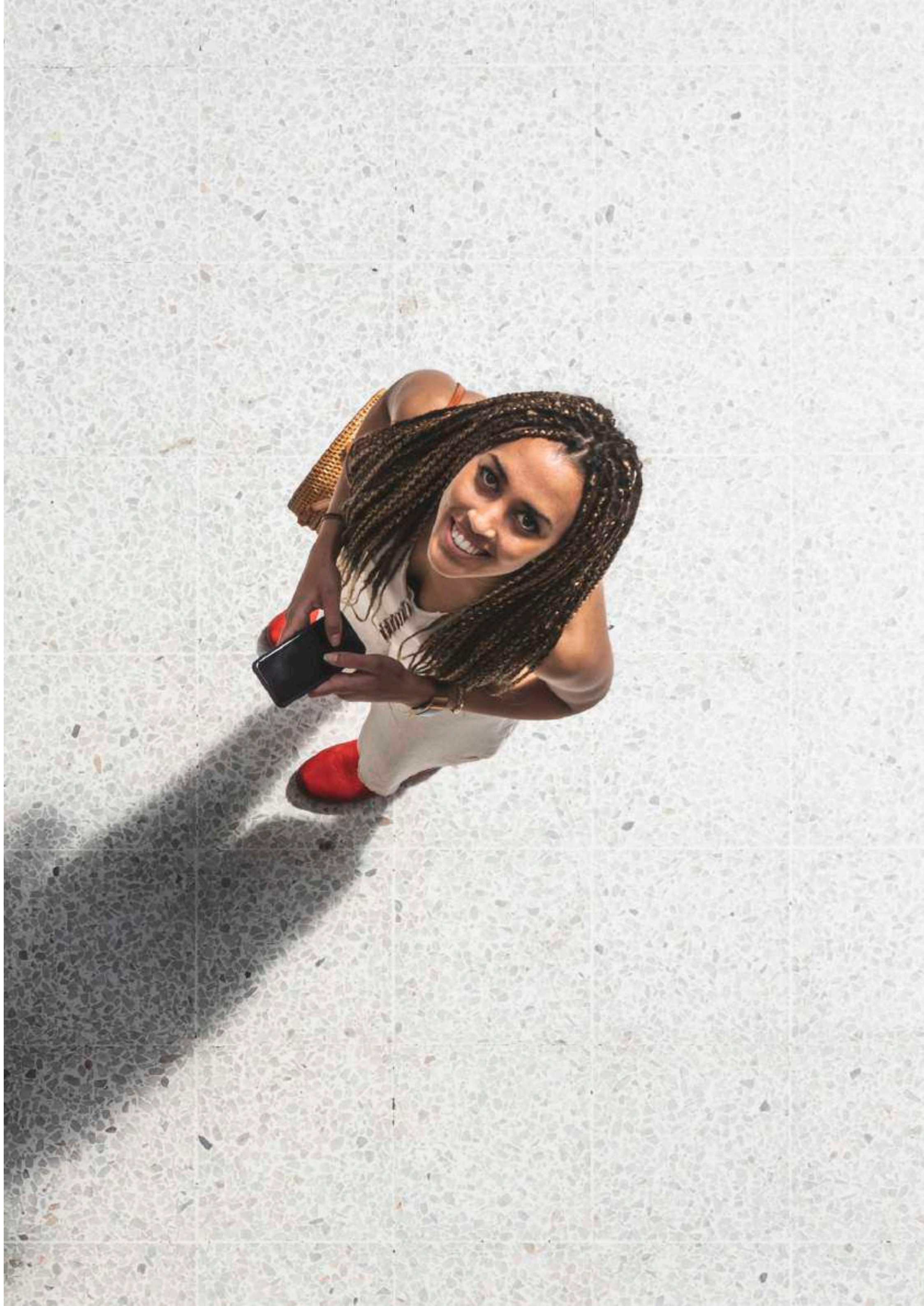
Once an activity is ticked off the list, an important step is taken towards the goal. This completed activity or step taken means that a person and/or household has achieved their unique financial success by completing the activity necessary for achieving the long-term goal. And once a specific final goal is reached, financial success is achieved.

SMALL WINS LEAD TO GREATER FINANCIAL SUCCESS

Let's look at an example: a person takes out a loan and must repay it every month. Every loan repayment that is made on time forms part of the journey and serves as a short-term target. This means that a person/household accomplishes financial success with every payment made on time and even more so, if they pay more than what is required. This is the financial success that is realised on the journey towards a goal. Once the loan is repaid in full, it becomes the financial success for reaching the long-term goal.

So, individuals or households achieve financial success daily, whether making loan repayments on time, making responsible purchases, drawing up a budget and sticking to it, planning for the long-term and actively pursuing the long-term goals, etc. It's all about small wins: each step brings positive change.

> Financial success is, therefore, about achieving a series of short-term targets in pursuit of long-term goals. And every step counts!



THE SCIENCE OF

FINANCIAL SUCCESS

EVOLVING FROM THE THEORY OF CHANGE

> Achieving personal financial success is a science, as it is based on a systematic methodology, founded on the evidence of how success can be achieved in the world of personal finance.

The Science of Financial Success evolved from ***The Theory of Change***, which is the framework and methodology that proved successful in personal finance. ***The Theory of Change*** places the household in a political, social, and economic environment where they must deal with factors that either are within and beyond their control.

As discussed in the section on the South African economic environment within which households live, there are many factors in the macro-environment that are beyond the control of the household, such as the Covid-19 pandemic, and the decision to implement a lockdown, which had a major financial and social impact on many households.

BE KNOWLEDGEABLE OF WHAT'S WITHIN YOUR CONTROL. PREPARE FOR WHAT IS NOT.

To be better prepared for the journey towards financial success, households must understand the factors within their control and those over which they don't have any control. Households need to know that there will always be factors that are beyond their control, but there are also ways to protect themselves against some of them.

The foundation, or first layer of the Theory of Change (refer to graphic illustration 2), focuses on the household's capabilities – the two input capitals mentioned above – that affect their income and wealth generation potential. These are their human and social capital.

Educational attainment (or qualification achieved) is used as one indicator of households' human capital. Although it is not always the case, research revealed that higher education improves the income and wealth generation potential for most households. Income potential is not limited to salary income; entrepreneurial success also benefits from higher levels of education.

On the other hand, social capital is about how in control households feel in terms of their financial situations. Do they feel like victims with no hope in sight? Or, do they have self-belief or self-confidence that they can improve their income and wealth generation potential, possibly with the help of an expert?

Households with a high human and social capital typically have a better chance of reaching financial success if they follow the second layer of the Theory of Change.

This second layer is all about the things households can do – with or without partnering with experts such as Certified Financial Planners (CFPs) – to manage their finances and progress towards their own goals, whatever those might be.

This includes:

- setting short- and long-term financial goals;
- coming up with a financial plan, the roadmap that includes the goals;
- implementing the financial plan (the journey), starting with budgeting for expenses, savings, and debt repayment aimed at reaching the goals;
- obtaining professional advice (if needed) in the budgeting and financial planning process, as well as with the understanding and take-up of financial products for purposes of lending, saving and insurance that will assist in reaching the goals, and ensuring that payments for these products are up to date; and
- empowering yourself through financial education programmes to become financially capable and embracing positive financial behaviour.

> Importantly, by performing these activities, it is possible to reduce the negative impact of the factors that are beyond a household's control.

The level of a household's potential to generate an income, combined with the degree to which they perform the activities applicable to them, will become visible in the third layer. This layer consists of their three output capitals, namely physical, asset, and environmental capital.

Physical capital is a sustainable source of income. It is reflected in a household's income statement (showing what households are earning and what they spend their money on after following the activities mentioned in layer two).

Asset capital is reported in a household's balance sheet. The balance sheet summarises all household assets (mostly residential and financial assets) and liabilities (mostly debt). It is used to gauge the level of a household's net wealth (assets minus liabilities) – which is an important indicator of financial stability, especially for and during retirement. Financial assets comprise households' liquidity (cash they have readily available), their savings for retirement, the value of their long-term insurance, and their investments.

Cash, as they say, is king. Liquidity is an important indicator of whether households will be able to cope during a financial emergency, such as quickly paying for unforeseen expenditure or having enough income in times of hardship (such as the one caused by the lockdown).

The value of households' retirement assets and investments are two other important indicators. It shows whether households would receive enough income during retirement or buy things they saved for. In turn, indebtedness is another important indicator that should be monitored to ensure that households don't borrow more than what they can afford.

Lastly, environmental capital is reflected in the household's living environment, as indicated by the type of housing and the surrounding environment. High environmental capital suggests safe housing, hygiene and safety.

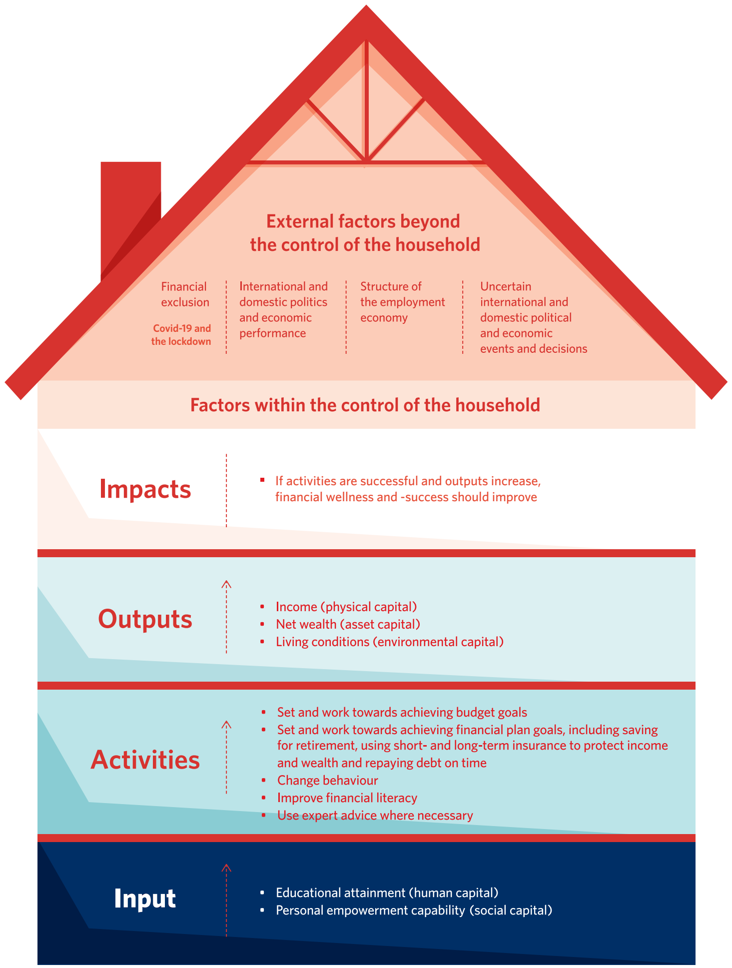
These three layers are closely linked. Together, they determine the long-term financial impact on the household, namely their state of financial wellness. A high level of financial wellness also indicates a high level of financial success, as financial wellness can't be achieved without successfully reaching specific short- and long-term goals.

This strengthens the macro-economic analysis findings that households should become independent from the factors beyond their control by acquiring the necessary acumen to become their own Chief Financial Officers by understanding how their own actions and attitudes contribute to their financial success.

> These three layers are closely linked. Together, they determine the long-term financial impact on the household, namely their state of financial wellness. A high level of financial wellness also indicates a high level of financial success, as financial wellness can't be achieved without successfully reaching specific short- and long-term goals.

The Theory of Change indicates that households who follow the Science of Financial Success recipe should improve their chances of achieving financial successes. This was tested using Big Data and confirmed the strong impact of inputs (specifically education levels impacting household's sense of empowerment) towards activities (driven by an interest in financial matters and financial literacy) and then towards outputs (income, net wealth, and living conditions).

Illustration 2: The Science of Financial Success as explained via The Theory of Change



Source: Momentum-Unisa

FINANCIAL ACTIVITIES AND INTERESTS – A NATIONAL VIEW BASED ON BIG DATA

"Big Data" is a term that describes the large volume of data – both structured and unstructured – that impact a business on a day-to-day basis. But it's not the amount of data that matters - it's what organisations do with the data that counts.

Big Data was used to obtain a view of households/individuals' financial behaviour during the lockdown. More specifically, an analysis was done to determine whether individuals engaged in more or less financial activities (described in the section on the Science of Financial Success and Theory of Change) during the lockdown.

> Big Data analysis was used as research showed that its results proved to be reliable.

From the results of various research projects referred to by Seth Stephens-Dawidowitz (2017) in his seminal work, ***Everybody lies. Big data, new data, and what the internet can tell us about who we really are***, it is clear that Big data provides very accurate predictions of behavioural outcomes because Big Data offers both the views expressed by people and the actual online behaviour of people (i.e., logging into a financial advice website or contacting a financial adviser). It therefore constitutes a very good proxy of actual household behaviour towards their finances.

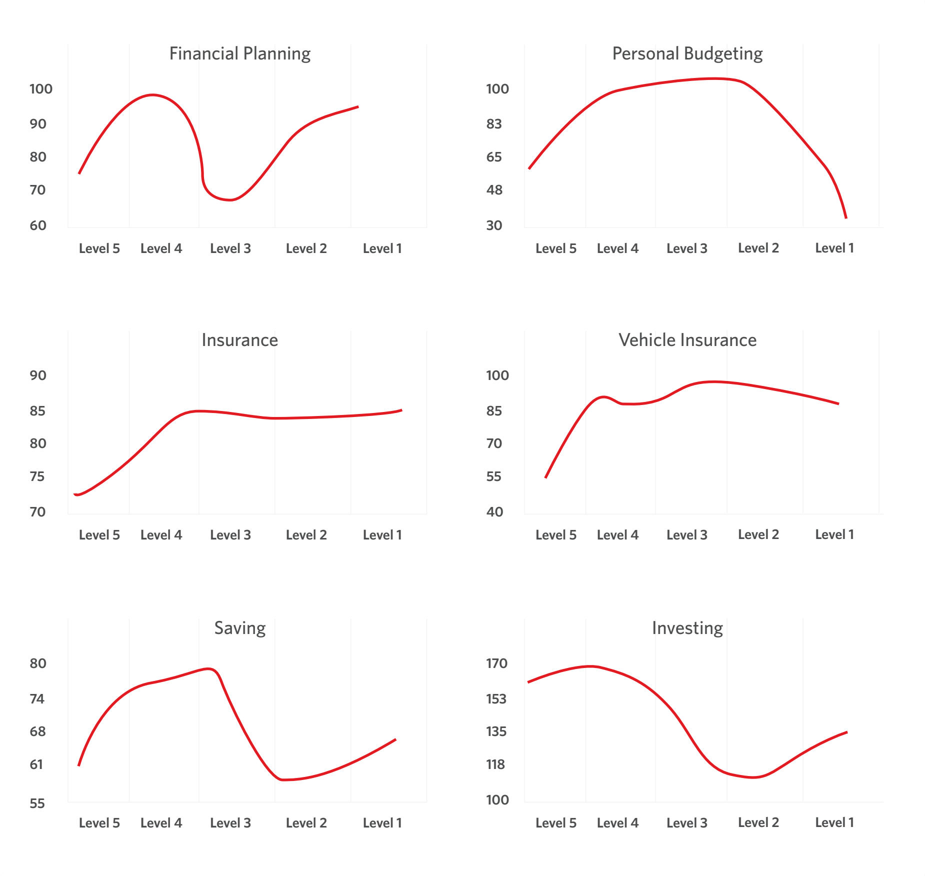
Although the analysis focused on most of the activities described above, it was broken down further to determine whether people's financial behaviour (constructed in index format) changed during the different levels of the lockdown (Level 5 to Level 1). These trends are shown in figure 10 and reveal the following about South Africans' behaviour in terms of the financial activities they undertook:

- Initially, the interest in personal budgeting and financial planning was low.
  The expectation was that the lockdown would continue for three weeks. Then the realisation set in that this will become a long-term reality. Consequently, households' interest in budgeting and financial planning increased. However, it decreased gradually as the lockdown rules were relaxed, the economy opened for more business, and more people returned to work;

- For the same reasons, and for fear of the possible negative impact Covid-19 might have on family lives, interest in insurance in general increased. The interest in especially vehicle insurance increased significantly when the lockdown rules were relaxed to allow more travelling. Another reason for the increased attention to insurance and vehicle insurance can be attributed to households using the payment holidays offered by insurers while also searching for "cheaper" premiums.

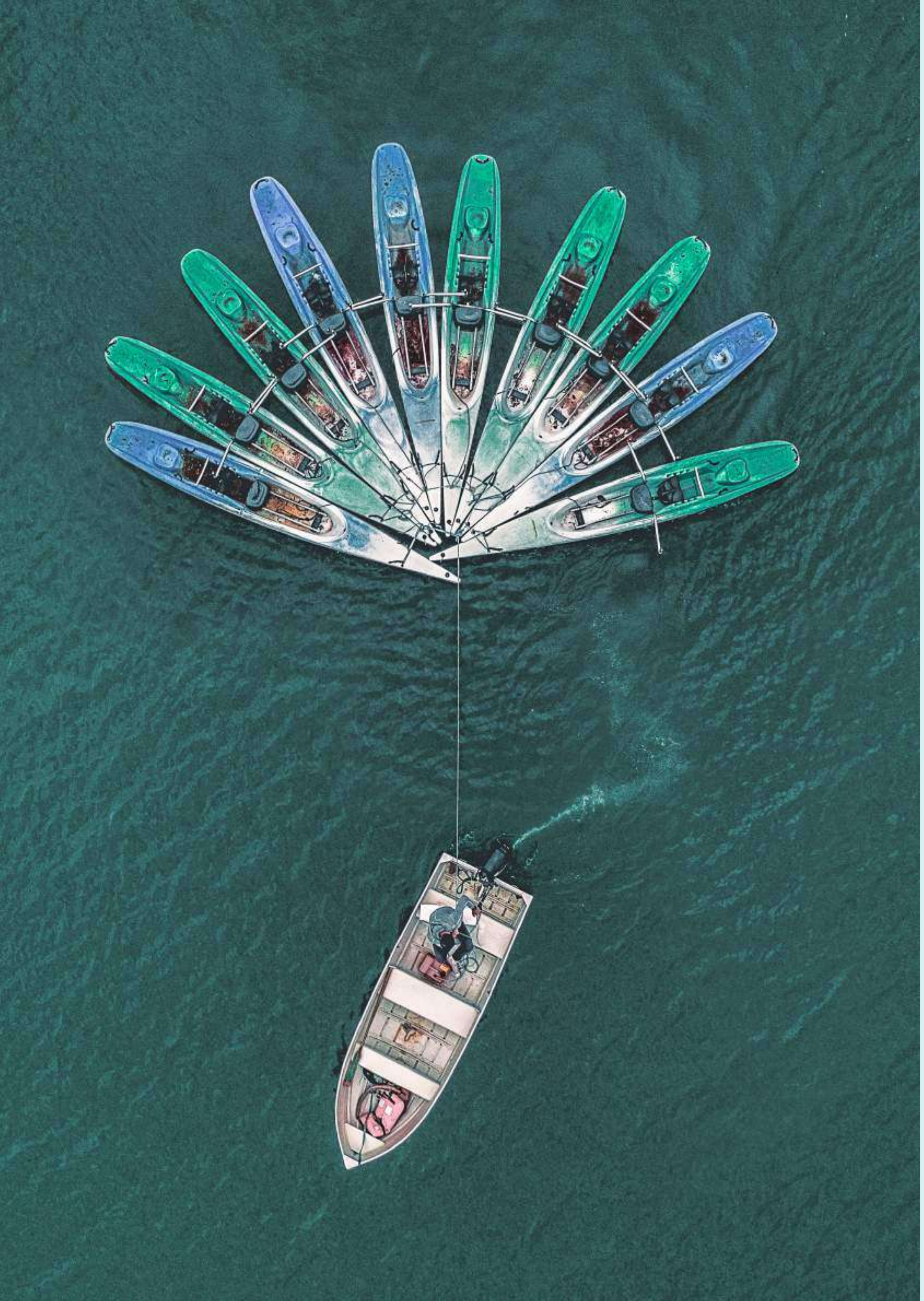
- Interest in saving increased up to level 3 of the lockdown, whereafter it declined with the opening of the economy. Nearly the same pattern is visible for investments, which was also influenced by financial markets' performance. When markets declined, the interest in investments increased, whereas the interest subsided as markets recovered.

Figure 10: Big Data analysis - Interest in specific financial activities during the levels of lockdown



Source: Bureau of Market Research: Unisa

The lockdown was a major wake-up call for many South Africans. The analysis shows that households' interest in certain financial activities increased once they realised that they were facing an event beyond their control - and also, one for which they might not have provided sufficiently. This just confirms the importance of the role that financial activities play in the journey to financial success. It also emphasises the importance of thorough and honest financial advice.



THE ROLE OF
PROFESSIONAL, SOUND AND

EXPERT FINANCIAL ADVICE

IN THE SCIENCE OF SUCCESS

Worldwide, various research studies have beendone to determine the value of financial advice.

Some of these studies focused on whether consumers who use professional financial advice will receive a higher income in retirement. Others explored whether consumers who used Certified Financial Planners (CFP's) to compile comprehensive financial plans – that include components such as goals, budgeting, insurance, tax, retirement, saving for emergencies, estate planning, investments, and debt management – are better off than those with limited financial plans, or no financial plans and those who did not make use of professional advisers.

The results are quite similar – consumers who use CFPs and professional financial advice; and who have comprehensive financial plans are much better off than those who make use of non-professional advice and limited or no financial plans. In South Africa, The Financial Planning Institute of Southern Africa (FPI) participated in some of these international studies and conducted some of its own research on consumers' value of financial advice. The results are similar to the international findings, which clearly shows the value of a comprehensive financial plan and a professional adviser that is focused on clients' needs, rather than on ust earning a fee or commission.

However, South Africa faces many challenges when it comes to financial advice. Although there is no precise indication of the number of professional advisers, it is estimated at around 100 000. But the FPI states that only about 4 800 are CFP's, of which only 3 800 are actively doing business.

If that is the case, we have a shortage of qualified financial advisers in South Africa to service the section of the population that earns enough to provide for financial goals such as savings, insurance, and affordable debt. This makes it harder for the available manpower to provide thorough advice to a growing number of consumers and is also why some consumers revert to non-professional advisers for assistance.

Research has also revealed that South African consumers are not sufficiently financially literate, which makes them easy pickings for unscrupulous "advice". Trust has, therefore, become a major issue in the business of financial advice. Other issues that were mentioned include financial advisers being perceived to be expensive and not always meeting consumers' expectations.

A major shortcoming that needs to be addressed in the financial planning process is the lack of an implementation plan. It is one thing to compile a financial plan with long-term goals, but it's another to follow through.

The proof, as they say is in the pudding: a clear implementation plan must provide all the activities that must be undertaken and the specific times it must be undertaken to achieve the long-term goals. A solid implementation plan will also help to increase the financial literacy levels of consumers and guide their emotions during volatile times. In a recent survey of the FPI on the impact of Covid-19 on CFP professionals and their clients, the CFPs reported that nearly 80% of their clients' stress levels were high or very high.

Despite these challenges, there's a lot to be said for the benefits of honest and thorough financial advice. In the same survey, 91% of the respondents agreed that South Africans with financial plans are likely to progress towards their financial goals, even in uncertain times.

ASK YOURSELF: WHAT WOULD YOU DO IF YOU WERE YOUR OWN FINANCIAL ADVISER BEFORE LOCKDOWN?

The online survey referred to earlier was also used to challenge respondents from a financial advice perspective. Knowing how they were affected by the lockdown, they were asked, should they be able to go back in time, what financial advice they would give themselves to be better prepared for factors outside of their control such as Covid-19 and the lockdown?

Some respondents were satisfied with what they have achieved before the pandemic and did not feel the need to change anything:

- "I have not been so badly impacted that I had to change my lifestyle. So, I must have planned appropriately. I would not do anything differently."
- "I will say that I'm prepared to overcome all my financial needs."
- "There is nothing that changed except my son was retrenched, which was unavoidable."

- "Covid-19 did not affect me financially. It helped me financially and allowed me to get the 3 months break on some of my debt. This break allowed me to capitalise on the break and eradicate debt in the process. The repo rate dropping also assisted me to eradicate debt. While some of my debt is gone, I used the surplus to reduce my bond term."

- "Covid-19 did not have a large impact on me, thankfully. People and businesses should, however, listen to the advice of their grandad and not overstretch themselves financially, as well as keeping at least 3-6 months' salary/income as a buffer against emergencies."

- "Well, I would tell myself to take life as it comes, and just be prepared for anything that hits us. Whether it be financially or physically. We should prepare for anything that comes our way."

> However, most respondents indicated that they should save more to be better prepared for unforeseen emergencies. Some self-advice that was given included:

- "To budget, and only buy your essentials. To save more, because every little cent counts! And to grow our own vegetables."

- "Have an emergency fund to carry you for 6 months. Increase passive income in many areas. Become self-sufficient. Don't waste."

- "I have to stock enough groceries by not going to the shops every week. I should have a strict budget to last for a few months to come."

- "I would tell myself that I didn't need so much clothing or household goods. All that money could have been saved and created a small lump investment for a rainy day."

- "Financial planning for the current day is just as important as planning for the future."

- "It is not my pre-Covid self I'd talk to; it's the twenty-/thirty-year-old who lived for the moment. Pre-Covid, assuming that means shortly before the lockdown, would have been too late for any individual to make plans."

- "Have an income protection policy. Have emergency funding for at least 12 months. Avoid debt at all costs. Focus on more investments than usual. Be more technologically inclined to start a digital business."

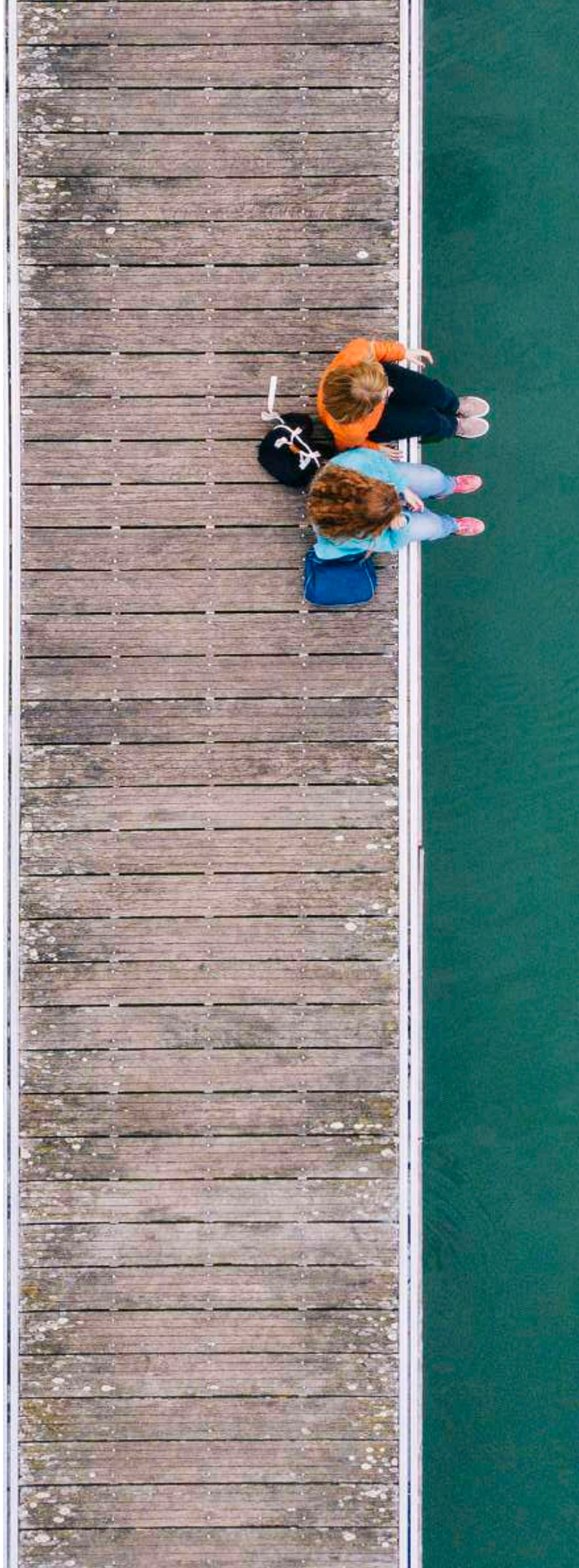
Many respondents also highlighted the need to better manage their spending. The importance of budgeting, spending less on luxuries, and having an extra source of income was a common thread of self-advice.

- "Become employed with a set monthly salary. Don't waste money on items one doesn't really need (i.e., too many coffee mornings with friends). Don't buy too many groceries and then have to throw them away - waste of money."

- "I believe it is sensible to budget properly and have savings for unforeseen circumstances. That being said, I would tell my pre-Covid-19 self to be meticulous about my finances. That speaks to budgeting for expenses, being mindful of spending to avoid unnecessary expenditure and being disciplined to save money or better yet, invest as much as the finances allow."

- "To keep insisting that my wife should base her budget on actual salary and not on anticipated overtime pay."

- "To make sure I had savings to cover reduced income and a medical aid that covered hospital treatment, especially if ICU is needed. Make sure that children are covered as well if they are not earning."



It was interesting to note that better debt management was not raised by many respondents as one of the highest priorities. However, they did list the goal to reduce debt or ultimately become debt-free. Someof the responses included:

- "Be completely debt-free. Try and find a way to earn extra income online. Spend only on essentials."
- "Firstly, don't make debt. Start paying off your accounts, and don't open new ones. Start saving for that rainy day because it is here, and there is no backup. Secondly, think before you just buy something, or say yes to that telly marketing agent."
- "Never get into debt no matter how tempting. And save as much as you can, even if it seems like little."
- "Pay off all your accounts and close them. Get rid of your debt. It will cripple you financially, and you may never recover. You don't need the credit card, cut it up. Save and then save some more!. Live simply. No-one will help you. But you will need to help others."

The tragic fact is that it took a global pandemic and lockdown for many households to realise that if they implemented their own financial advice, they would have been much better prepared to face the challenges beyond their control. Fortunately, though, some households did follow their own good advice, or that of a good financial adviser.

BEACONS OF HOPE: FINANCIAL SUCCESS STORIES DURING LOCKDOWN

As we know, financial success is not passive and can only be achieved while actively pursuing a financial goal and/or achieving the goal. The good news is, despite the lock-down and other challenges experienced due to Covid-19, some households managed to be financially successful. Others were not. So what are the differences between them?

The following real-life stories of people from different backgrounds sheds some light on the matter:

RESPONDENT 1	
Description	Single, 24-year-old employed woman with a degree and was earning between R72 001 - R100 000 per month. She is highly qualified (i.e. has a high level of human capital) and feels in control of her finances (i.e. has a high level of social capital).
Activities to manage the things in your control	As a single woman household, she makes her own financial decisions and has no financial dependants. She remained employed during the lockdown period and perceived her financial position as very positive before and during the lockdown. Her positive assessment is also reflected in her financial position which doesn't need any recovery. Notwithstanding her sound financial position, she did experience some financial challenges during the lockdown period, though. However, these challenges were limited to family or friends requiring financial assistance and her medical aid not covering all medical expenses. She was successful in the lockdown period to create an additional income stream that greatly increased her income to between R250 000 and R363 600 per month. She also was able to increase her investments with the extra income. Her self-assessment that her financial knowledge and skills are excellent, is mirrored in her comprehensive goals which include education funding, making provision for her retirement, having income protection, death, critical illness and disability cover. She is saving for an emergency, plans to be debt free and is practicing estate planning which includes having an updated, signed Will. She is confident that she will be able to achieve both her short-term and long-term goals in the foreseeable future. Her active interest in personal finance is also evident from her awareness of a variety of Covid-19 related financial relief incentives. These include online financial education sessions, the payment holidays, SARS tax relief measures, the new Social Relief Grant and the government's Solidarity Fund.
What does financial success mean to you?	"Wealth."
Advice to your pre-Covid-19 self?	"I always save for any emergency. Covid-19 was nothing to me."

RESPONDENT 2	
Description	Single, 24-year-old self-employed man that completed secondary school and is earning between R8 500 and R12 600 per month. He has completed secondary school (i.e. low to mid-level of human capital) and feels fairly in control of his finances (i.e. mid-level social capital).
Activities to manage the things in your control	He is earning an income from his own business but supplemented his income by social transfers (e.g. food or accommodation). It seems that he was able to get a part-time position tutoring during the lockdown period. However, his total average monthly income declined to between R6 401 and R8 500 due to Covid-19. This deterioration is reflected in his assessment of his financial positive to decline from neutral to negative and will take 12-18 months to recover from the impact of Covid-19. Financial decisions are made in conjunction with his siblings and friends as his siblings and someone else's children are also financially dependent on him. He suffered a reduction in his income and did not have enough money to cover monthly necessities due to the fact that his business suffered during Covid-19. The strain on his finances necessitated him to change his shopping behaviour by changing the shops were he normally shopped. This change also included buying more online. He also explored alternative possibilities to earn additional sources of income and had to borrow money from friends and family. His financial situation also resulted in him moving in with the family. He rates his financial knowledge as satisfactory, but this statement is contradicted by the fact that he doesn't have a financial plan or any financial goals. He is however aware of the debt relief and other economic financial relief schemes for small businesses, the Spaza Support Scheme, the new Social Relief Grant and the government's Solidarity Fund.
What does financial success mean to you?	"Financial freedom with maximum flexibility relating to time."
Advice to your pre-Covid-19 self?	"Save a bit more."

RESPONDENT 3	
Description	Married, 55-year-old employed woman who completed secondary school (i.e. low to mid-level human capital) was earning between R12 601 and R30 300 per month. She however feels completely in control of her finances and thus has a high level of social capital.
Activities to manage the things in your control	Financial decisions are made collectively with her spouse. The confidence in her financial abilities is reflected in her self-assessment of her financial skills and knowledge as good, resulting in her rating their financial position as very positive, without a need for any recovery. This is confirmed by the fact that their household did not experience any financial struggles due to the lockdown. They also did not make any adjustments regarding their finances in 2020, e.g. did not review their goals or obtain financial advice. They seem to have defined their goals early on as their financial plan includes a strategy to provide for their retirement and have enough money to pay for their expenses. They are confident that they are on track to achieve both their short- and long-term goals. This is supported by not having to adjust their financial plans in 2020. Although she feels secure in her financial position, she keeps abreast with the financial relief measures that were introduced during the lockdown. She is aware of the online financial education sessions hosted by banks, insurance companies and other institutions, the TERS initiative, the payment holidays and the SARS tax relief measures.
What does financial success mean to you?	"It means you can buy, pay and support your family."
Advice to your pre-Covid-19 self?	"Well, we were one of the lucky ones as we received our salaries, I think we also would have liked to save more money."

RESPONDENT 4	
Description	Married 48-year-old self-employed man with a diploma (i.e. mid-level to high human capital) and his household income was between R52 901 and R72 000 per month. He however doesn't feel in control of his finances at all (i.e. very low-level social capital).
Activities to manage the things in your control	His is solely responsible for the financial decisions in his household. Although he doesn't feel in control of his financial position, he did not think that his financial position required any recovery due to the lockdown as they did not experience any financial struggles. He was able to continue running his business but did find it necessary to cut back on some expenditure items and found additional sources of income. These efforts resulted in him remaining positive regarding his financial position pre- and during the lockdown. His financial plan includes certain short-term goals, providing for retirement, cover against loss of income, funeral cover, death, disability and critical illness cover, short-term insurance, saving for emergencies, managing his debt, asset accumulation and estate planning. He is quite confident that they will achieve their short-term goals, but less optimistic regarding his long-term goals. Although his low level of social capital indicated that he did not feel in control of his finances, his actions contradicts this – as he is actively conducting financial planning, is financially knowledgeable and feels that he can create his own success. It seems that his lack of confidence in his own abilities is misplaced.
What does financial success mean to you?	"To be able to live comfortably."
Advice to your pre-Covid-19 self?	"Save more."

The four profiles were selected based on the diversity in educational attainment (human capital), income earned (physical capital), and a sense of control over finances (social capital).

For purposes of understanding their journeys to success, it is important to assess the goals pursued and the activities they have implemented to manage the things that they can control and lessen the impact of things they can't control.

By applying two of the principles of Stephen Covey's (2004) Seven habits of highly effective people to the various respondents, the importance of being an active member in one's own financial journey becomes clear.

HABIT 1: BE PROACTIVE, which is defined as "we are responsible for our own lives (Covey, 2004:71). Covey further states that the word responsibility – "response-ability", is the ability to choose your response. It is clear from the four respondents that they made certain active decisions regarding their financial situations. These decisions included getting an extra income source, adjusting their spending behaviours, being informed of options available to them, and having a financial plan.

HABIT 2: BEGIN WITH THE END IN MIND. Covey (2004:98) unpacks this habit further by illustrating the difference between being effective and efficient. "We may be very busy, we may be very efficient, but we will also be truly effective only when we begin with the end in mind."

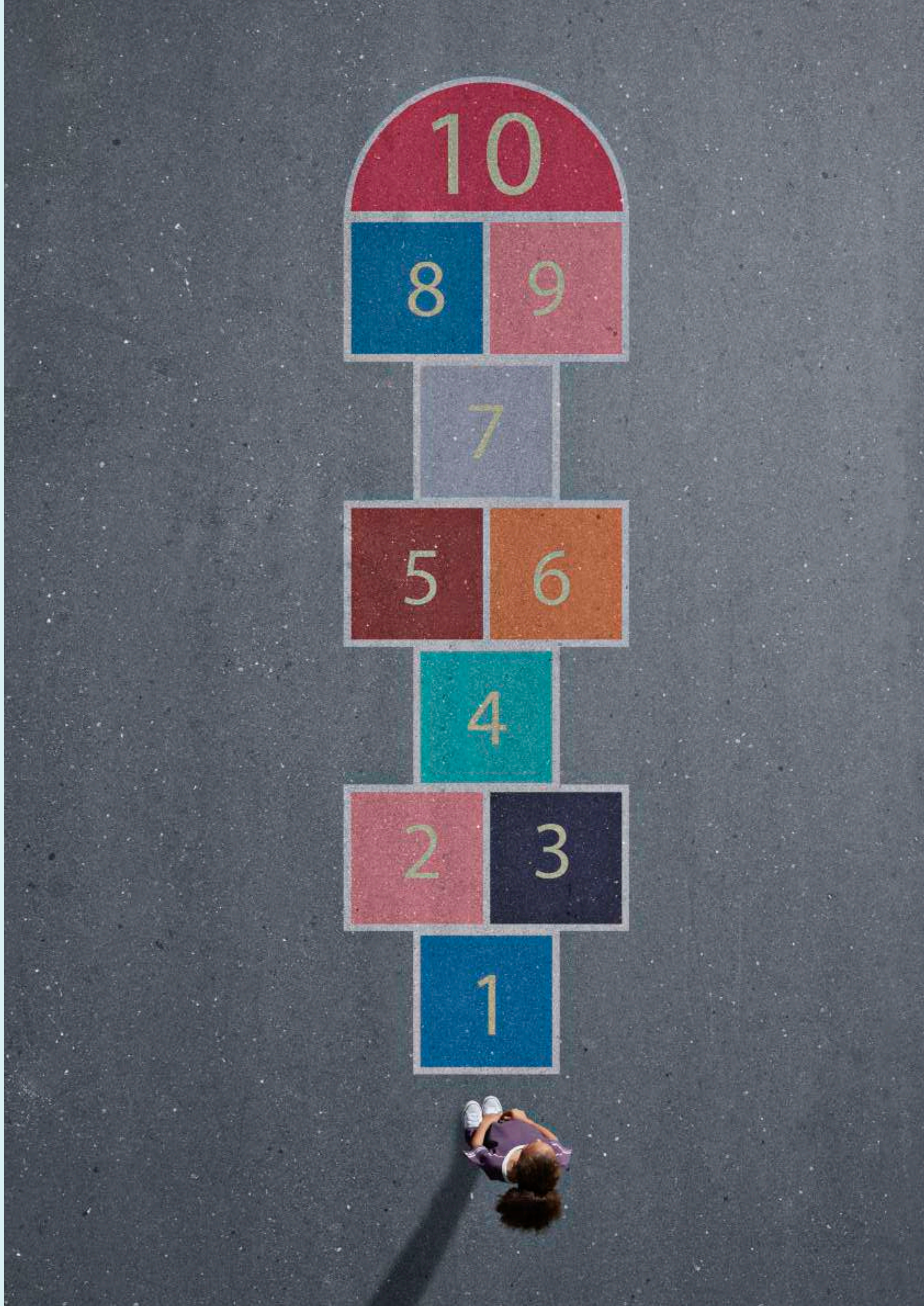
This brings us back to the definition of financial success – having goals and working towards achieving them. It is clear that Respondent 2 could obtain a second stream of income (i.e., being efficient) but does not seem to have any specific financial goals and is living/surviving for the moment and will therefore not be effective.

This illustrates that regardless of income level or qualifications obtained, the one key ingredient to financial success is to take control of your own financial journey by starting with the end in mind – have a financial plan which includes short- and long-term goals and implement the plan, regardless of events you cannot control. Planning is key.

A WOMAN'S

FINANCIAL WORLD

IN SOUTH AFRICA



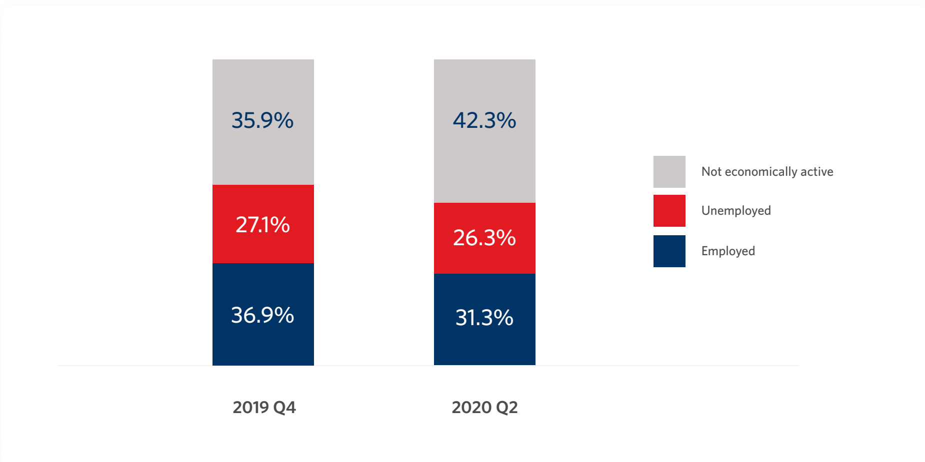
WOMEN NEED ENABLING SPACES THAT ALLOW TO BOLDLY PURSUE THEIR FINANCIAL SUCCESS

When it comes to financial matters, most women face unique circumstances and challenges. For those in the fortunate position of having a job, there is a lot to juggle in day-to-day activities, such as work, children, groceries, and other household responsibilities. This leads to the unfortunate fact that for most women, long-term financial planning and involvement in the detail of household finances tend to take a backseat. Moreover, women's daily activities intensified during the lockdown. They had been more at risk of losing their jobs or working lower-paid hours. They needed to take on more childcare and household responsibilities, as support options were limited by lockdown regulations, such as school closures.

Women make up 51.1% of the South African population.

Those of working age (between 15 and 64 years) equal close to a third of the total population. In terms of employment, women were hardest hit by the lockdown. Just over a million either lost their jobs or were prevented from working. Although figure 11 shows that women's unemployment rate declined during the lockdown, the number should be interpreted in context. This is because many employed and unemployed were classified as not economically active in Q2 2020 – due to them not being able to work because of the lockdown. As a result, the unemployment rate declined, while the proportion of women classified as not economically active increased.

Figure 11: Employment status of women was negatively impacted during lockdown



Source: Stats SA Quarterly Labour Force Survey, Q2 2020

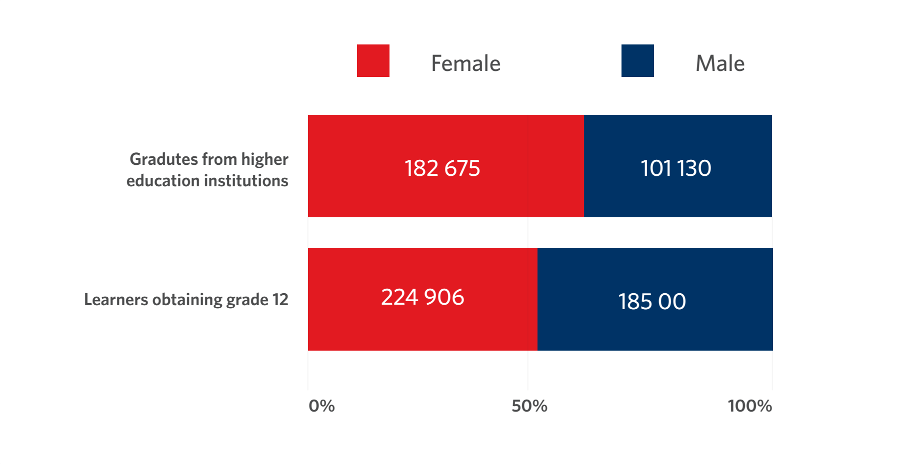
Although South Africa still has a long journey ahead towards gender equality, more women are being given equal opportunities in the workspace.

When excluding "hard labour jobs", the statistics show close to, or in some periods, more than half of "non-hard labour jobs" are filled by women. This is also the case when looking at skilled jobs, where women take up almost 45% of these jobs. The current cabinet of government is also gender-balanced, with half of the positions filled by women.

Many women with jobs are confronted with the challenge of interrupting or ending their careers to care for young children, aging parents, or both. This causes them to rather choose jobs that offer flexibility, but this usually implies lower salaries. This contributes to the already large gender pay gap between women and men. Although it is a global issue, it is estimated that women in South Africa, on average, earn an estimated 30% less than men in similar jobs. However, evidence points to a smaller pay gap for lower-paid jobs. This decreasing gap was positively influenced by the compulsory minimum wage laws. Fortunately, the pay gap is also closing on average and higher paid jobs as more women obtain a formal education – as matriculants and graduates.

For some time now, more girls have completed matric than boys have. However, the biggest growing differentiator between men and women is visible in the graduation numbers from public and private higher education institutions. For some years now, close to two-thirds of graduates are women. This dominant pattern has contributed to the narrowing pay gap at the higher end of the remuneration spectrum.

Figure 12: Education improvement visible for women



Source: Department of Basic Education (2019), Department of Higher Education (2018)

Interestingly though, in terms of the field of study, South African women follow the same pattern as those in other countries.

> Women are much more dominant than men in fields of study that is about people, e.g. teachers, nurses, physicians, etc. while men are more dominant in the study of things, such as engineering.

However, research revealed that women tend to make less use of financial products and services for advice. A recent study conducted by Sanlam estimated that only two in ten women are likely to obtain professional financial advice. In this respect, it is important for women to find an adviser or mentor that understands, respects, and takes their unique needs into consideration. In other cases, not using a financial product or service is caused by limits on access to such services because many women, especially in poorer communities, do not have jobs in the formal economy.

It is estimated that about 40% of households in South Africa are headed up by women in terms of household responsibility. In many cases, women's partners do not permanently live in the household dwelling. In other cases, women are the main income earners.

In such households, women need to be the providers and the nurturers. Many of these women-headed households are in rural areas that lack higher-paying jobs. Therefore, such households tend to be poorer.

But women are naturally more likely to build social support networks, showing compassion to other households during bad times and receiving support during difficult times, whether it be in the form of friendship, exchange of food, clothes, or being part of a stokvel.

"THE SECOND PANDEMIC THAT SOUTH AFRICA CAN'T AFFORD"

On top of the challenges that they have to face daily, many South African women have become victims of gender-based violence. According to the Centre for the Study of Violence and Reconciliation, one in four South African women will experience violence by men, with crime statistics indicating a woman is murdered every three hours.

Official statistics currently show that domestic violence has not increased during lockdown compared to previous years. However, some researchers attribute this to factors such as limits on mobility, not being able to report cases without a partner knowing about it, and the ban on alcohol during a large part of the lockdown. The crisis of gender-based violence has enraged the public, calling society to decrease violence against women and children. President Cyril Ramaphosa coined gender-based violence during the lockdown, a second pandemic that South Africa can't afford. The victimisation of women has left many women feeling disempowered and in very little control of their own financial futures.

WOMEN MUST OWN THEIR JOURNEY TO SUCCESS

In a patriarchal society such as in South Africa, many social and cultural restrictions are placed on women, including their household financial matters. But given that women tend to live longer than men (six years on average), in many cases outliving their partners, women need to become part of the long-term household financial planning process.

They must know where accounts or investments are held and be included as well as present during discussions with any adviser that their partners might have. To understand the terminology that's used to "talk-the-talk," women should be bold and empower themselves with the financial knowledge to "walk the walk" with self-confidence.

WOMEN SHATTER BARRIERS - AND IT'S INSPIRING TO SEE

The online survey results also showed that despite trying times, given the opportunity and correct guidance, women can improve their financial circumstances.

The following two stories tell the tale of the inequalities that exist, even amongst women.

65-year-old, retired, single woman who completed primary school, whose main source of income is social grants

As a single woman, she makes her own financial decisions and has no financial dependants. Given the financial struggles she experienced, she had to cancel some of her financial products, change her spending behaviour by shopping at different stores and also cut back on certain expenditure items during the lockdown period. It was also necessary for her to revise her short- and long-term financial goals. These financial goals include saving toward an emergency safety net and other specific items.

However, she doesn't think she is likely to achieve her current short- and long-term goals. She rates her financial knowledge and skills as unsatisfactory, although she was aware of certain financial relief measures related to debt restructuring and the UIF relief scheme, as well as the new Social Relief Grant and the Government's Solidarity Fund. She is not certain of her monthly income but given her grant dependency, her income level is not very high. She experienced some reduction in her pension income, had family and friends asking for financial assistance but did not have enough money to cover her monthly necessities and medical expenditure. This also resulted in her not having enough emergency savings to cover unplanned financial expenses. She stated that she doesn't know what her advice to her pre-lockdown self would have been, and financial success is to her to maintain her daily requirements.

36-year-old, self-employed, married woman with a postgraduate degree, with a household income between R72 000 and R100 000 per month prior to the Covid-19 pandemic

She is mainly responsible for the financial decisions of her household and is very optimistic about her household's financial position, rating it as positive. However, it seems that she has lost some contracts as her reported income level slightly declined during the lockdown. In order to mitigate the reduction in income, she adjusted her budget and changed the stores where she normally did her shopping.

She rates her financial knowledge as excellent, which is supported by the numerous goals included in her comprehensive financial plan. These financial goals include wealth generation, saving for specific short-term goals, funding for education, providing for her retirement, income protection, funeral provision, sufficient life, disability and critical illness cover, as well as risk protection via short-term insurance. Her plan also includes the optimisation of tax benefits, saving for emergencies, reducing her debt to become debt-free, asset accumulation and estate planning (which includes having an updated, signed Will).She is very optimistic about realising both her short- and long-term goals as planned. Financial success, to her, is the need to never worry about money.

It's clear that, although progress is being made, much more can be done to assist women on their financial journeys – this can be achieved by women themselves, their partners, employers, communities and the government.

Women urgently need to empower themselves with the appropriate financial knowledge that will enable them to become more involved and even take the lead in managing their households' financial situations.

Much more can also be done to increase women's access to affordable and quality financial advice, assisting them with financial planning and goal setting (including a plan for old age) and providing them with equal income-earning opportunities in the workplace.

7 HABITS

OF MONEY-SAVVY HOUSEHOLDS THAT CAN SUCCESSFULLY WEATHER A FINANCIAL STORM

1. **They map out their journey with measurable goals and a plan to achieve them.** A general desire for financial success is very vague, you need to be specific and realistic in setting financial goals. The more specific your goals, the more likely you are to achieve them. Both long-term and short-term goals are important, but even more important is having a blueprint for achieving such goals. And don't forget to consider your dependents or loved ones when you are planning your finances - you don't want them to have financial stresses and debt burdens when you are no longer around.

2. **They maintain their momentum by knowing where every cent goes.** Sticking to a monthly household budget is the best way to guarantee that all bills are paid and that your savings are on track. By keeping track of what you spend, you may be surprised when you see how much you spend on daily coffees or lunches, clothes, or even data. By tracking each cent, you reinforce your financial goals and limit the temptation to splurge on wants instead of saving for your needs.

3. **They cover themselves for rainy days.** Empower yourself by saving a predetermined amount each month for those unexpected financial emergencies. So, invest in yourself first. The general rule of thumb is to have enough emergency funds to support you for three to six months should something unexpected happen, such as retrenchment, illness, or a lockdown. It's never too late to start saving. No matter how small, start with something.

4. **They make the bold choice to invest.** Historically there has been no better way to grow your money than through investing. There's no doubt that investing is risky – but in many ways, choosing not to invest is even riskier. The magic of compound interest will enable your investment to increase exponentially over time. Bear in mind that you need a lot of time to achieve meaningful growth. So, don't delay.

5. **They don't let speedbumps deter them.** Whether it's getting out of debt one small repayment at a time, or learning to right previous financial wrongs, you learn from your mistakes and move on if you strive for financial success. Each small step forward in your journey is a success in its own right.

6. **They are financially savvy and streetwise.** Knowledge is the best defence against those who prey on uninformed individuals to sell get-rich-quick-schemes. Keep up with financial news. Review all applicable tax legislation changes each year to ensure that you optimise any adjustments and deductions.

7. **They diversify their income sources.** When investing, the general advice is to maintain a diversified portfolio as having all your eggs in one basket is inherently risky. The same is true for income. When you have multiple income streams, losing one is not the end of the world.

> Consider additional income sources, whether it be a small side project to learn and master new skills that can be turned into a major source of income in the future or have passive income sources such as dividends, interest, or rental income.

THE JOURNEY OF FINANCIAL

SUCCESS

MY PLEDGE

I pledge my commitment to become financially successful based on my own personal financial goals. I understand that the path is as unique as I am, so it is up to me to see my dreams, goals and aspirations become a reality. I know that financial success is not something others can give me, nor is it something that the government or the economy can provide me. I trust myself, my innate potential to succeed and the momentum I have built to achieve the financial success I envision for myself. I hereby pledge to embrace my journey with all its challenges and victories.

I am committed to stay true to my course as:

I am committed to educating myself about personal finance, investing, and wealth for the rest of my life

I am committed to fully understanding my finances

I pledge to live within my means and save for my future self

I pledge to know the difference between my short-term as well as long-term needs and wants

I pledge to take equal pleasure in saving as I do in spending

I pledge to value anticipation over instant gratification

I pledge to define myself by who I am, not what I have

I pledge to align my spending with my values, vision and goals

Every thought I think, every word I speak, and every action I take from this day forward will reflect my commitment to this journey, which will lead to peace, fulfilment, empowerment, and financial security.

Signed ____________________ *Date* ____________________

momentum SCIENCE OF Success

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