Kick-start your savings plan

With the pinch of the economic downturn, many South Africans have no choice but to abandon hopes of long-term savings and turn to debt in a bid to survive from month to month.

©rangizzz via 123RF

"We have become a nation of borrowers," says Mark Young, deputy CEO of Bayport Financial Services, South Africa. "South Africa has one of the lowest savings rates in the world. We traditionally borrow more than we save, and it's only getting harder due to conditions beyond our control such as a plummeting exchange rate, rising inflation and a struggling economy. These factors place additional pressure on hard-pressed consumers already struggling to make ends meet."

Ironically, lack of savings is one of the major contributing factors to the growing over-indebtedness of South African consumers. "When you have savings you don't need to borrow money in an emergency," says Young. "The harsh reality for millions of South Africans is that the ever-increasing cost of living coupled with macro-economic conditions may mean a lack of ability to start saving."

Change in mindset

Saving requires a strong commitment and a change in mindset and attitude and even if you can't save right now, start the process by settling debt and managing your lifestyle. Saving gurus recommend that you should save at least 10% of your annual income; to retire comfortably, the number is 20%. Research has shown that South Africans save between 0% and 8%.

The interest on debt usually accumulates faster than the interest on savings. While saving might not be possible for everyone, use it as a goal by prioritising debt repayments and when you have extra funds available once debts are paid off, channel those into savings.

“Ideally you should have a minimum of three months’ salary set aside to cover emergencies such as loss of income or car or home repairs,” says Young. “This may be difficult to achieve, but it is a target to work towards. Even saving a small amount will give you more security than no savings at all.”

Building a savings account is a good idea because it:

- Gives you a financial cushion.
- Helps you to prepare for retirement.
- Enables you to achieve your short or long term goals.
- Grows your money through compound interest.
- Allows you to be able to afford assets that support the creation of wealth (e.g. house).

“Everyone wants to have plenty of money and the freedom to spend it however they choose. This may be an unrealistic goal, but you can build up a savings account no matter what you earn.

All it takes is some discipline and clever tactics - such as making your money work even harder for you,” comments Young.

Use these steps to kick-start your savings plan:

- Budget - people who keep track of their expenses often have more money left over at the end of the month than people who don’t follow a spending plan.
- Prioritise - make saving for your future a priority.
- Manage - pay off debts that have high interest rates and save the money you no longer spend on monthly instalments.
- Lifestyle - reduce unnecessary spending (lottery tickets or the daily cappuccino or take-away) and put that money into a savings jar. At the end of each month deposit the money from the jar into a savings account and watch it grow.
- Be service-savvy - cancel any unused club memberships, analyse your bank and cellphone accounts, and cancel any services you aren’t using or don’t need.