Making a habit of saving

Like it or not, our ability to earn, acquire, and manage money affects our lifestyle and the degree to which we can achieve our personal economic goals.

The good news, according to John Manyike, head of financial education at Old Mutual (SA), is that you don't need any fancy qualifications or technical background to become an expert at managing your own finances.

"By changing your attitudes and habits around money, you can achieve prosperity," says Manyike.

"Most people intuitively understand that they need to save 'a little bit' at the end of the month. But this often doesn't work, as there always seem to be other expenses that eat into whatever is available."

"Failing to get into the habit of saving regularly is one of the biggest reasons why people don't become financially secure."

This notion is also reflected in the results from the 6-monthly Old Mutual Savings Monitor which showed that poor financial planning habits are at the root of poor money management.

Manyike believes that even if you start with a small savings amount monthly, you will develop a savings habit. This habit will make it easier to increase your savings over time.

He says it helps to ensure this saving is automatically deducted from your monthly income, before you start paying other expenses. By paying 'savings' at the beginning of the month, it makes the money unavailable for spending.

Manyike also mentions that Old Mutual offers an 'On the Money' programme free of charge which teaches people to pay themselves first ahead of their creditors by saving at least 10% of income and live of the rest.

"Eventually you will forget about your saving and not even miss the money. Psychologically it should just become another 'fixed expense' in your budget."

"If your savings are not automatic and you have to put the money aside yourself, you will soon find reasons for not doing it immediately, or ever, which will bring your savings plan to a halt," advises Manyike.

He says by implementing one of the following methods to make savings automatic you will be on your way to disciplined savings:

- Ask your employer to deduct the money from your salary and pay it into your savings account or investment each month.
- Ask your bank to arrange a stop order against your account.
- Sign a debit order in favour of the investment manager.

When getting your savings plan together, he adds two cautions. First: "You must always ensure that you have enough funds in your account to cover all your debit or stop orders. Banks charge heavy penalties if you don't have funds in your account on the day that the automatic payments are due. Don't let this happen to you"!

Secondly: "When you start saving, make sure your money is safe and earns good interest".

"There are thousands of saving and investment options, with

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different degrees of risk. Some investments go up very quickly, but can just as easily lose value. These are 'high risk' investments.

"Until your savings plans are well under way, it is best to steer clear of high risk. Remember the saying, 'If something sounds too good to be true – it probably is'," he warns.

"Many people have been cheated out of savings by promises of doubling their money quickly. It is easy to be tempted by promises of getting rich, but in reality, people investing in 'get-rich-quick' schemes usually lose their money. 'Get-rich-quick' schemes have become very sophisticated and people often end up in one disguised as another type of investment, for example."

"If you are starting to save, begin by putting your money into lower-risk investments such as those offered by the banks or post office. Once you have got into the savings habit, you can look into other investments."

Manyike offers the following savings options:

Savings Club or Stokvel Method: Useful for short-term savings, but you should also have your own savings plan and accounts.
Savings Account at a Bank or Post Office: This is a good way to start a savings plan. It is relatively easy to open an account, which you can access through an ATM card. The accounts do not earn high interest rates.
Notice Deposits: Useful for saving a lump sum that you will only need to access in the future.
Fixed Deposit: A safe way of saving for the medium or longer term.
Government Bonds: A good medium-term investment.

Other popular savings plans include -

- **Unit Trusts:** A flexible way to grow your savings if you can afford to take a medium to long-term view, and fully understand the nature of the investment – there is a wide range of fund choices, each with their own risk profiles.

- **Endowment Policies:** This is a long-term commitment – with best results coming through after ten years or longer and can potentially provide certain tax advantages to you. Try not to stop contributions or cash in your plan early.

- **Retirement Annuity Fund (RA):** This is a great way to build up money to live off when you retire and are no longer working. You enjoy a number of tax concessions by investing in a Retirement Annuity (RA). The proceeds of an RA are usually only available from age 55, so make sure you fully understand how the investment works before signing up to it.

"We understand that if you don't get your finances right, you will not succeed in getting your future right. This belief lies at the heart of our partnership with the South African Savings Institute to encourage a stronger saving culture in our country, to improve financial literacy and to provide in the financial planning needs of customers," concludes Manyike.